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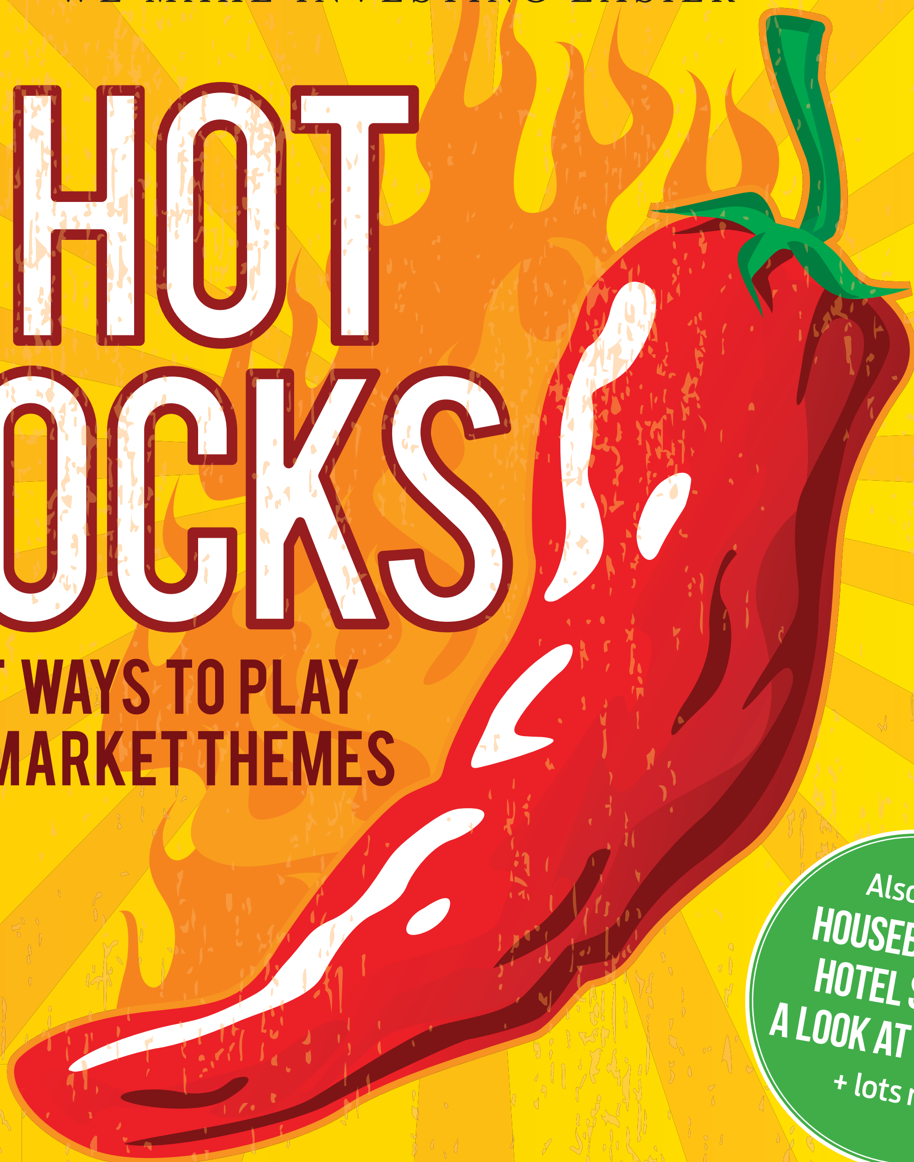

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OPINION

Shaken by profit warnings

Does a barrage of earnings downgrades imply difficult times ahead?

DANIEL COATSWORTH

There are conflicting signals about the state of the nation. Profit warnings dominated the headlines in the second week of November and economic figures have been very mixed.

Among those troubling investors with profit warnings were **Rolls-Royce (RR.)**, **DX (DX.:AIM)**, **Morgan Advanced Materials (MGAM)** and **Hornby (HRN:AIM)**. In late October we had news that the UK economy grew at a weaker-than-expected pace. On 13 November we learned that eurozone economic growth in the third quarter was below forecasts.

In contrast, there was a surge in new work across the UK construction industry in October, as revealed by data released on 3 November. As a proxy for the housebuilding sector, FTSE 100 constituent **Taylor Wimpey (TW.)** issued a very upbeat trading update on 16 November. On the high street, **Marks & Spencer (MKS)** issued better than expected sales on 4 November. **BAE Systems (BA.)** and **Vodafone (VOD)** both saw their shares rise last week, thanks to positive updates.

COMMODITY DRIVER

Sharp falls in the price of oil and various metals have been the cause of many profit warnings this year. The supply chain is feeling the impact of commodity producers scaling back operations and developments. Companies with big exposure to commodity-dependent economies like Brazil look vulnerable to earnings turbulence as their end market becomes less able to buy goods or services. Companies selling into China also face a period of unpredictable demand.

Consumer-related companies should be experiencing a positive impact from lower commodity prices. Lower food and fuel prices should theoretically put more money in our pockets to spend on other items. The recruitment industry should also be doing well in the UK judging by the amount of vacancies for jobs and proof that people are finding work. Data released on 11 November shows the UK unemployment rate has fallen to its lowest level since April 2008.

At a high level you can get a feel for the industries doing well and those in trouble. For example, the terrorist activity over the weekend in Paris may cause problems in the leisure industry if people are nervous about travelling. Indeed, shares in **Thomas Cook (TCG)** are down more than 5% at the time of writing (16 Nov) as investors fear the Paris atrocities, combined with the disruption to travel in Egypt in the preceding weeks following a Russian plane crash, may dampen demand and reduce group earnings.

So is it easy to predict which companies are most at risk from a profit warning in the near future? The answer is no, given that many of the recent warnings were entirely unexpected.

Several companies have this year reassured investors over the health of their trading, only to issue a profit warning soon afterwards. Investors should therefore ask if they were misled over the true state of affairs in the original announcement.

Equipment rental group **HSS Hire (HSS)** is a classic example, shocking the market in late June with news of weak trading in April and May – yet there was no reference to this market problem when it issued a trading update at the end of May.

DX flagged trading difficult trading conditions when it reported in late September, but said its new financial year (starting in July) had begun 'in a positive manner'. Seven weeks later, the parcels delivery group revealed a deterioration in trading patterns and a significant cut to dividend and earnings expectations.

You could argue this was a genuine, rapid decline in trading health, but this is definitely a stock to monitor in case something else negative emerges from the profit warning, as is often the case with these situations.

SECTOR FOCUS

A study by Ernst & Young on UK plc profit warnings in the third quarter found the sectors most at stress to be support services, software and computer services and media. Some of this will be down to having clients in the commodities space and a reduction of work for this industry; others a result of a global uncertainty prompting people to delay technology-related projects or rethink advertising spend.

Companies whose operations are primarily in the UK may be easier to analyse, in terms of potential profit warnings, as you should be able to get a closer feel for the key factors affecting earnings.

For example, one common theme with recent negative trading updates has been higher wage costs. A buoyant jobs market will mean companies have to pay higher salaries in order to attract the best people, as there will be greater competition for candidates. That could put the squeeze on profit margins.

DX cited a shortage of drivers across the delivery industry, implying it has to pay more money to attract new workers. **JD Wetherspoon (JDW)** on 4 November said that rising wage costs had eaten into profit margins.

Investors always need to stay one step ahead of the game and this is why *Shares'* key focus is to write forward-looking articles. We will do our best to give you insight into all the major issues that could impact earnings both positively and negatively. After all, the stock market is about pricing in expectations for the future, not looking back at historical events.

SHARES
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19 November 2015

Don't sit in silence, let us know what you are thinking

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Our intelligent, informed and independent package is available in print, on the internet and via mobile devices. Every week, we explain what is happening in the financial markets, how you can use them to preserve or create wealth and why they can be an important part of your financial planning, as you save up for school fees, retirement or a rainy day.

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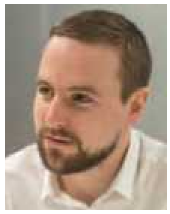

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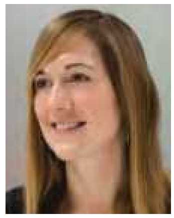

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Punch paves a growth path

Coffee concept and Harry Ramsden's deal are expected to enhance earnings

EMILY PERRYMAN

Plans by pub group **Punch Taverns (PUB)** to operate a small managed business alongside retail agreements and a joint venture with Harry Ramsden's are expected to increase the level and quality of earnings and help shelter the £290.6 million cap from the effects of the Market Rent Option where the publicans can now buy beer from other suppliers.

The group's new chief executive Duncan Garood says there are significant benefits to be had from running more than one business model.

Punch has launched its first fully managed pub but Garood says he doesn't envisage building a big managed estate. 'We will use a small number of managed pubs as an opportunity to get closer to the consumer and see how offers help drive volumes,' he says.

The vast majority of pubs will be run under a short-term lease or via a retail contract, where Punch would retain 100% of the sales and pub costs and support the back-of-house function; the retailer would run the front of house.

There are 31 pubs which have been converted to a retail contract, resulting in an average sales uplift of 15% to 20%. Garood expects to have 100 retail contracts by August 2016.

Punch intends to roll-out retail concepts like coffee shop and pub concept Brewed & Baked and sports bar Champs. In its premium and destination pubs it has announced its first retail partnership with fish and chip shop Harry Ramsden's.

These projects aim to make use of underused space at Punch's 3,588 pubs, where Garood says there is 'significant unrealised value' on the top floors. Other initiatives include having a Co-Op grocery store on unused land bank next to a pub.

Punch sold 1,600 pubs in the last four years and as a result its core estate will comprise around 95% of profits in 2016 versus around 80% two years ago. Barclays suggests this could result in the estate growing like-for-like sales for the first time since 2007/08. Core like-for-like income was up by just 0.3% in the year to 22 August 2015.

Langton Capital analyst Mark Brumby says the group should already have benefited from the Rugby World Cup and its estate is in a better shape than it was this time last year.

'The group's shares trade at 40% of book value, assets have been sold at a high multiple and at or in excess of book value and debt should fall further,' he says.

SHARES SAYS: ▲▼

The new strategy should unlock value and is expected to have lower overheads and less execution risk than Enterprise Inns' (ETI) plans to build a very large managed estate. We agree with the 'buy' recommendation of Numis, who reckons the shares will grow by 38% from 130p to 180p over the next 12 months.

SWOT ANALYSIS

STRENGTHS

- Business mix is expected to enhance earnings
- Trading at 40% of book value
- Net debt is falling

WEAKNESSES

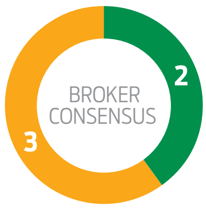
- Market Rent Option uncertainty remains
- Debt is still high
- Behind Enterprise Inns on operational development and pub performance

OPPORTUNITIES

- Accelerate number of retail contracts
- Introduce more retail concepts to widen pubs' appeal
- Realise value from underused floor space

THREATS

- New strategy fails to deliver
- Further legislation/taxes
- Competition



Relief rally at engineers

Bodycote and Spirax updates are better than feared

WILLIAM CAIN

ENCOURAGING UPDATES FROM engineers **Bodycote (BOY)** and **Spirax-Sarco (SPX)** injected some enthusiasm into the sector and may highlight a buying opportunity.

Spirax in particular has shed more than 20% since peaking in early June, impacted in part by a £1.20 special dividend paid in July, and now trades at £30.27.

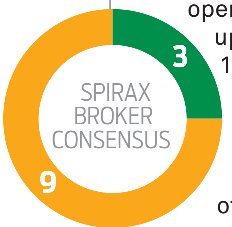
But a 17 November 2015 trading update indicates concerns of a big slowdown in industrial markets are a little overblown.

'As befits a company with a strong record of resilience, trading from July to October marked a slight deterioration from the first half of 2015 but nothing dramatic,' writes Investec analyst Michael Blogg.

'Similarly, we do not expect any dramatic change in estimates, even if there is a temptation to trim for the sake of caution.

'Our estimates and target price are under review but we expect to maintain our neutral stane on this high quality and highly rated stock.'

Earnings per share at Spirax are expected to be flat at 139p in the year to 31 December 2015, according to Blogg's estimates prior to the update for a price-to-earnings ratio of 21.8. Earnings in 2016 are pitched at 145p.



Bodycote, which has oil and gas–facing operations, also pleased markets with an update on the same day. Sales are down 10% year-to-date, the company says, but underlying profit should be in line with earlier guidance of between £101 million and £106 million.

'The group has a proven track record of protecting profitability in difficult conditions while generating significant cash, which we consider an attractive combination,' Blogg adds.

SHARES SAYS: ▲▼

We remain keen on Bodycote at 535p and, after being neutral for a while, now see an opportunity at Spirax too.

DX fails to deliver

Is the logistics group's fall overdone or is there more trouble ahead?

SEAN FLYNN

DON'T BE TEMPTED to buy troubled parcels delivery firm **DX Group (DX.)** as a recovery play or takeover target at 24p. We believe there are too many unanswered questions to warrant buying on share price weakness, so wait until there is greater clarity from the company before making a judgement on the stock.

More than two thirds of the company's value was slashed last week after a major profit warning (13 Nov).

The company had been popular among income investors thanks to a generous dividend yield. DX says it now expects to only pay 2.5p dividend for the current year, a huge drop from the 6p paid last financial year. This could prompt many investors to cut their losses and exit completely.

The fact that the outlook for DX can have changed so dramatically since full-year results on 21 September is a big concern. It states that document delivery volumes are down, staff costs are up and new business opportunities are converting more slowly into work.

Cantor Fitzgerald has reduced its rating from 'buy' to 'hold' and slashed its target price from 115p to 26p.

SHARES SAYS: ▲▼

We are concerned that DX could reveal more bad news as it is under pressure to give more clarity about the sudden drop-off in trading. Avoid at 24p.

Autotrader is motoring

ONLINE SECOND hand car portal **Auto Trader (AUTO)** looks well positioned having delivered a stellar set of first half numbers (13 Nov).

Notably there is a significant reduction in leverage which was one of our reservations when the company first joined the stock market in March.

The results, covering the six months to 27 September, were ahead of expectations with revenue up 8.4% to £138.2 million and adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) of £88.6 million for a 64.1% margin.

Leverage falls from 3.4 times to 2.7 times net debt to EBITDA and a maiden dividend is paid; in the words of broker Jefferies: 'what's not to like'.

JPMorgan highlights the group's upcoming inclusion in the MSCI Developed Markets index (from 30 November) as a near-term kicker for the stock. The strength of the business and the rosy outlook chimes with updates from second hand car dealers such as **Vertu Motors (VTU:AIM)**. (TS)

BROKER RATING: SELL HOLD BUY NOT AVAILABLE

Acquisition boost for PCG

CHINESE ONLINE gaming company **PCG Entertainment (PCGE:AIM)** swung to an operating profit of $400,000 in the third quarter, driven by its reverse takeover of gaming software distributor Center Point Development. The shares have fallen by 74% to 1.7p over the past year as a result of the suspension of online lottery sales in China and negative sentiment towards the country. (EP)

Telecity EC OK

AT £12.04 PAN-EUROPEAN co-location data centres operator **Telecity (TCY)** has agreed an asset sale deal that has secured support for its takeover with the European Commission. This should rubber-stamp its £2.35 billion acquisition by US peer **Equinix (EQIX:NDQ)** and could even open the market for new entrants in the data centres space. (SFr)

Wray ups Reach stake

ENTREPRENEUR AND small caps investor Nigel Wray has increased his stake in theatre promotion company **Reach4Entertainment (R4E:AIM)** to 26.3% as part of the £800,000 cap's share placing. The stock, trading at 1.6p, has raised £4 million and refinanced its loan facility to help reduce its £14 million debt pile. (EP)

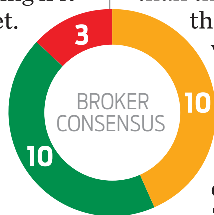
Ophir's jewel in the crown

Explorer needs to address lingering doubts over Fortuna project

TOM SIEBER

As well as being a victim of a wider sell-off in the oil and gas exploration and production sector **Ophir Energy (OPHR)** has suffered from scepticism over the viability of its floating liquefied natural gas (FLNG) project offshore Equatorial Guinea.

Taking a view on the stock means deciding if it can deliver Fortuna on time and on budget. We think there are reasons to be positive – particularly after a reassuring update (11 Nov) and our own chat with chief operating officer Bill Higgs. Broker RFC Ambrian has previously put a per share value on Fortuna of 62p.



Unlike many of its peers, Ophir has a robust balance sheet. According to the company net cash will total between $250 and $300 million as at the end of 2016 and this is based on a conservative oil price estimate derived from the forward strip (an average of futures contracts) for the next three years discounted by 10%. With much of its production in Indonesia and Thailand in natural gas the company is relatively insulated from oil price volatility.

Higgs says the development of Fortuna is supported by an analogous project in Cameroon managed by the Cameroon state oil company and French firm Perenco. Both projects will involve vessels from **Golar LNG (GLNG:NDQ)**. 'It's a very good precursor,' Higgs says. 'It's the same team, the same vessel design and we can benefit from any learning in Cameroon, the only difference with Fortuna being a turret mooring system.'

He adds: 'Part of the reason we've kept going with this project and we're more optimistic than the market is there's nothing strange in the plumbing so there will be a minimal well count. I can't see anything that will prevent us getting to final investment decision (FID) by the middle of 2016.' The limited drilling required also has positive implications for the economics of Fortuna.

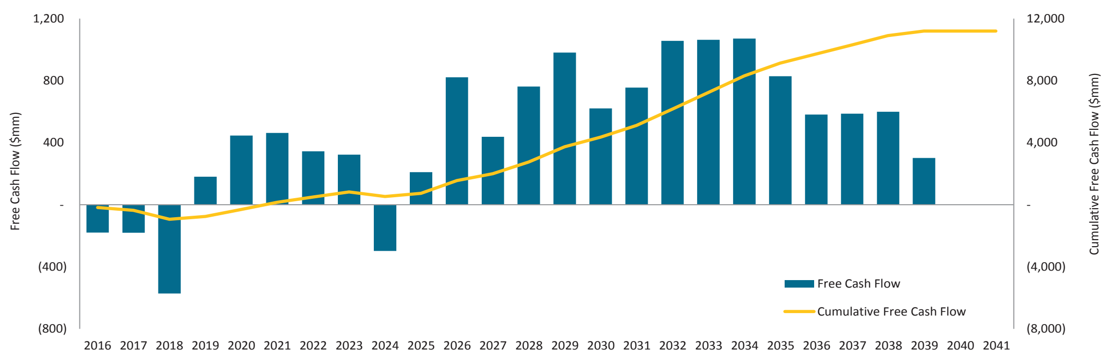
The one disappointment from the 11 November statement was 2016 production guidance which, at between 10,500 and 11,500 barrels of oil equivalent per day, came in below analysts' forecasts. Higgs explains the company is never focused on 'production growth for production growth's sake'; instead it wants to be a self-sustaining explorer and to ensure any capital expenditure is delivering 'economic free cash flow'.

SHARES SAYS: ▲▼

At 95p, and assuming Ophir can achieve FID on Fortuna as planned, we think there is scope for a re-rating at this cashed-up explorer.

Ophir – Cash flow profile for Fortuna project

Annual Free Cash Flow (*Base Case, Gross*)



Source: Ophir Energy

Economics shown at 55p/therm NBP, $85/bbl Brent

Gym float is unappealing

Newly-listed low-cost fitness chain faces stiff competition

EMILY PERRYMAN

The highly competitive, low barrier-to-entry nature of the gym market means we're taking a bearish view on newly-listed leisure stock **The Gym (GYM)**, despite its pledge to expand its estate over the next few years.

The stock floated at 195p on 9 November, valuing the business at around £250 million, and has since climbed to 202.5p. Reports suggest The Gym was targeting a market cap of £300 million but was held back by the lack of other listed health club operators, making it difficult to value.

The Gym is the second-largest operator of low-cost gyms in the UK with 66 gyms. It comes in behind Pure Gym which has 115 gyms nationwide. The business models of each are very similar – they don't require members to sign a contract and they're open 24/7.

The health club market looks saturated but The Gym claims the low-cost segment is growing. There were 58 low-cost clubs in 2011 and today there are 319. The penetration rate of low-cost gym membership is low at 2% compared with the UK health and fitness club market overall at 14%.

John Trehane, chief executive of The Gym, claims the group can open between 15 and 20 gyms in total in 2015 and every year thereafter over the medium-term. Pure Gym also has ambitious expansion plans, targeting 250 to 300 gyms by 2020, but Trehane doesn't think this is an issue.

'What we're seeing with low-cost gyms is like what happened with airlines. More people are flying because it's cheaper and easier. You don't just have one **Ryanair (RYA)** or one **EasyJet (EZJ)**,' he says.

Earnings before interest, tax, depreciation and amortisation totalled £14.7 million in the year ended 31 December 2014, up from £11.8 million the previous year, driven by the opening of 15 gyms.

The Gym doesn't tie members in like other health clubs do and Trehane argues this is a key strength. He cites Mintel research which found flexibility of membership is one of the three most important aspects of choosing a gym.

Local authorities also offer gyms that are cheap with flexible membership options and they also offer swimming pools and other leisure facilities. The Gym only offers fitness equipment because, Trehane says, 70% of people who use fitness clubs only ever use the gym.

He argues that local authority gyms are smaller and less well-equipped; in *Shares*' view the charitable social enterprise-run 'Better' range of gyms across the UK are good quality with decent equipment, no contract lock-in period, they're reasonably priced and some have squash courts.

SHARES SAYS: ▲▼

The Gym faces intense competition and there's little to set it apart from Pure Gym, local authority gyms and concepts like Pay-as-u-gym.com.

SWOT ANALYSIS

STRENGTHS
- Revenue CAGR of 43% since 2012
- Plans to adopt a progressive dividend policy
- Visible expansion plans

WEAKNESSES
- Extremely competitive market
- It isn't the largest player
- No membership tie-in

OPPORTUNITIES
- Acquire another fitness chain
- Accelerate expansion plans
- Add other facilities

THREATS
- Competitors
- Can't find sites to meet its roll-out target
- History of lacklustre fitness chain listings

Forecast hike for Quixant

Densitron deal to bring technology, scale and cross-sale benefits

STEVEN FRAZER

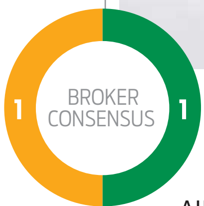
THE ACQUISITION OF struggling displays technology manufacturer Densitron by pay-to-play gaming platform designer **Quixant (QXT:AIM)** has sparked a swathe of forecast upgrades, and triggered talk that the shares could hit 200p next year.

Densitron makes bespoke display solutions such as Thin-Film-Transistor (TFT), LCD, organic LED displays and touchscreens throughout the world, a neat fit for Quixant's core gaming terminal engines.

'We expect the acquisition to be significantly earnings enhancing in the first full year of ownership and to bring synergies, greater sales capacity and cross-selling opportunities,' spells out FinnCap analyst Lorne Daniel.

The City number cruncher has hiked his revenue and earnings estimates substantially in the wake of the 11p per share, £7.7 million acquisition.

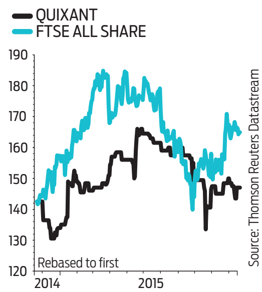
He now anticipates $79 million of sales for the 12 months to 31 December 2016, but funded by cash and relatively cheap debt, Daniel anticipates a jump of more than 17% in earnings, from $0.128 to $0.15, or approximately 9.9p per share. That implies more than 24% earnings growth next year, an acceleration on the near-18% compound average growth rate over the past two years.



Cambridge-based Quixant joined AIM on 21 May 2013, raising roughly £3.9 million of growth funding from investors at 46p per share. The stock has risen sharply since, currently trading at 147p.

SHARES SAYS:

A 2016 price to earning (PE) multiple of 15 is not expensive for a company with substantial growth potential.



International's festive greeting

All eyes on small cap ahead of key trading period

JAMES CRUX

PUT GREETINGS CARDS, gift wrap and creative play products maker **International Greetings (IGR:AIM)** on watchlists. Progress with deleveraging continues apace, while the £90.3 million cap's winning range of licensing deals suggests a bumper Christmas is in store.

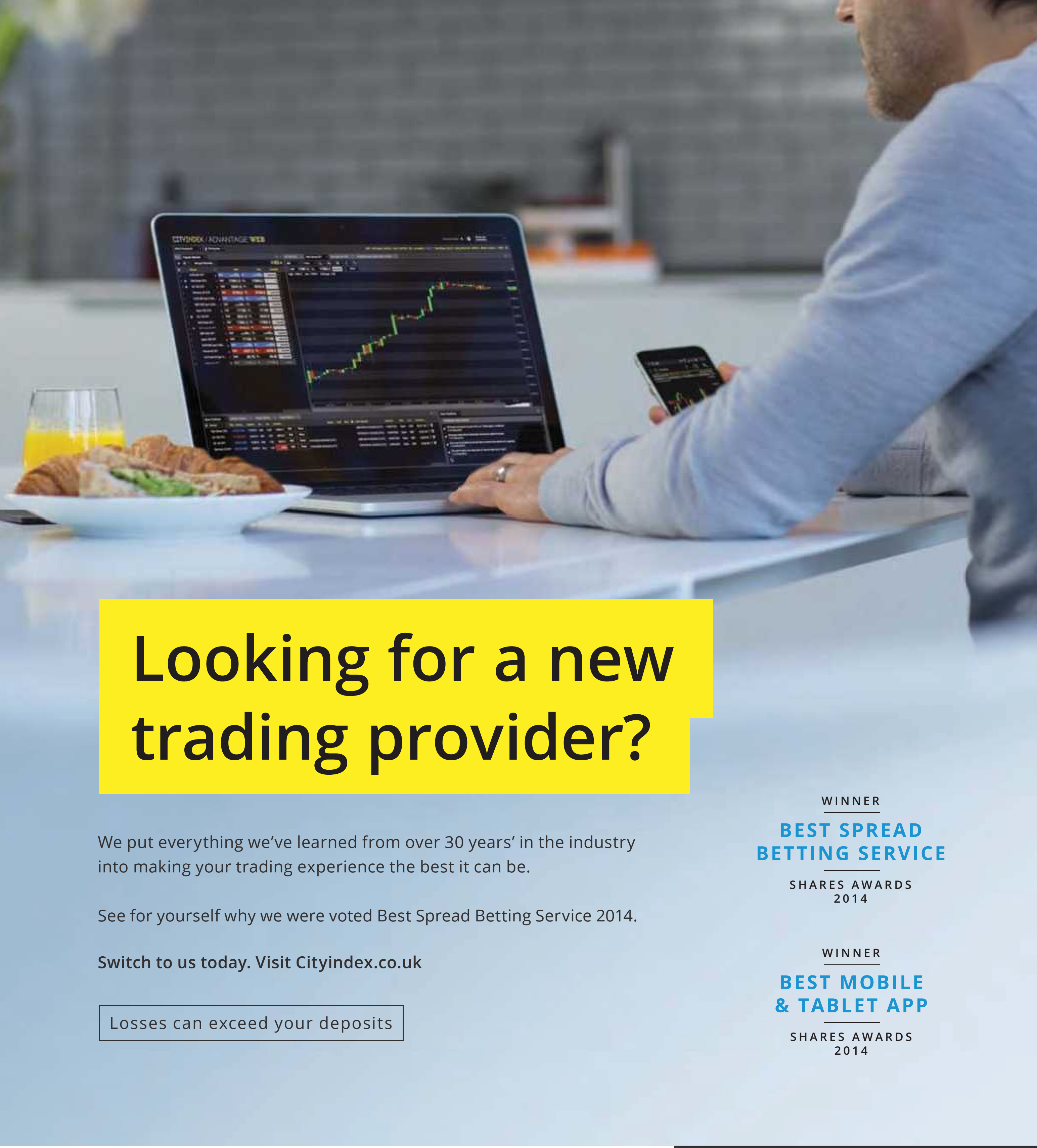
International Greetings' first-half trading update (20 Oct) flagged progress with new and key accounts in the US, where it has expanded its relationship with discounter Aldi, as well as efficiencies coming through in the UK business. Even after a seasonal build up in working capital, International Greetings still expects to report a year-on-year decline in net debt when it issues half-year results on 2 December.

Shares believes the company, turned around and returned to the dividend list by CEO Paul Fineman, is set up nicely for the peak period given a formidable range of licensing deals spanning iconic characters and brands.

These include a tie-up with Disney to make products for the *Star Wars* franchise and a contract for products featuring the iconic Coca Cola Santa Claus. Furthermore, International Greetings should benefit from bumper demand for its licensed range of creative play products featuring the beloved '*Minions*' characters from smash-hit film series *Despicable Me*.

SHARES SAYS:

At 157p, International Greetings is worth closer examination due to its growth potential, dividend and scope for festive-driven upgrades.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RPC	RPC
Betfair	BET
Hogg Robinson	HRG
Finals	
Thomas Cook	TCG
Daily Mail	DMGO
Britvic	BVIC
THURSDAY 26 NOVEMBER	
Interims	
LondonMetric Property	LMP
Torotrak	TRK
First Property	FPO
Arrow Global	ARW
Severn Trent	SVT
Helical Bar	HLCL
Charles Stanley	CAY
PayPoint	PAY
Finals	
Marston's	MARS
SSP	SSPG
FRIDAY 27 NOVEMBER	
Interims	
Pennon	PNN
Finals	
Patisserie	CAKE
Future	FUTR

TRADING STATEMENTS

TUESDAY 24 NOVEMBER	
Kingfisher	KGF
Intertek	ITRK
THURSDAY 26 NOVEMBER	
Anglo Pacific	APF

AGMS/EGMS

FRIDAY 20 NOVEMBER	
Celtic	CCP
Red Emperor Resources	RMP
People's Operator	TPOP
Plutus PowerGen	PPG
Ibex Global Solutions	IBEX
FRIDAY 20 NOVEMBER	
Spectris	SXS
MONDAY 23 NOVEMBER	
Mirada	MIRA
Goldenport	GPRT
Just Retirement	JRG
TUESDAY 24 NOVEMBER	
Strat Aero	AERO
Vinaland	VNL
WEDNESDAY 25 NOVEMBER	
Mysale	MYSL
Oilex	OEX
Hogg Robinson	HRG
THURSDAY 26 NOVEMBER	
Thor Mining	THR
FRIDAY 27 NOVEMBER	
Wildhorse Energy	WHE
Range Resources	RRL
Draganfly Investments	DRG
Forte Energy	FTE
Harvest Minerals	HMI
Filtronic	FTC
Pan African Resources	PAF

EX-DIVIDEND

THURSDAY 26 NOVEMBER		
Rapidcloud International	RCI	0.67p
St Ives	SIV	5.55p
Smart (J)	SMJ	2.1p
Volution	FAN	2.25p
Amec Foster Wheeler	AMFW	14.8p
3i Infrastructure	3IN	3.63p
Anglo Pacific	APF	4p
CVS	CVSG	3p
Ecclesiastical Insurance Office	ELLA	4.31p

ECONOMICS

FRIDAY 20 NOVEMBER
UK
Public Sector Net Borrowing
EU
Consumer Confidence
JP
BOJ Monthly Report
TUESDAY 24 NOVEMBER
US
Prelim GDP
CB Consumer Confidence
WEDNESDAY 25 NOVEMBER
UK
BBA Mortgage Approvals
EU
GfK German Consumer Climate
US
Core PCE Price Index
THURSDAY 26 NOVEMBER
UK
FPC Statement
EU
Italian Quarterly Unemployment Rate
US
Unemployment Claims
JP
Prelim Industrial Production
Retail Sales
FRIDAY 27 NOVEMBER
UK
GfK Consumer Confidence
EU
ECB Financial Stability Review
JP
Unemployment Rate
National Core CPI

WEDNESDAY 25 NOVEMBER ▶ RESULTS ▶ FINALS

Daily Mail & General Trust (DMGT) 730p

THE OUTLOOK STATEMENT will be the key focus when the publisher of the *Daily Mail* reports its 2015 results. Panmure Gordon says the company 'habitually' offers its first view of the following financial year alongside its full-year figures.

Downgrading the stock from 'hold' to 'sell' and cutting his price target from 760p to 700p, Panmure analyst Jonathan Helliwell sees the risk of 'material further downside to numbers'.

He cites tough trading in a number of areas, a more cautious roll-out strategy for the troubled RMS(one) digital risk management system, the loss of associate profits from the likes of **Zoopla (ZPLA)** and increased spending on *MailOnline*.

Shares has historically been positive on the business thanks to its strong position in business-to-business (B2B) products and its relatively-successful digital strategy. A trading update on 24 September also flagged firmer advertising revenues. (TS)

Source: Moneyam

12-MONTH PROFIT ON ALL 'PLAYS OF THE WEEK' TRADES: **+7.2%** **VS.** FTSE ALL-SHARE: **-4.2%***

Belvoir takes larger slice

New multi-brand strategy to revive share price

MARK DUNNE

A new strategy and profit enhancing acquisitions look set to drive growth at residential rental agency franchiser **Belvoir Lettings (BLV:AIM)**.

Further trips to the M&A market are on the cards with management pointing to a strong pipeline of potential deals. To increase market share Belvoir is abandoning its single identity in favour of a multi-brand strategy that will see it collect the revenues of more than one letting agency in the same district for the first time.

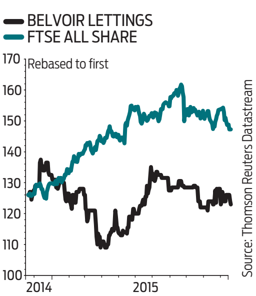
NEW THINKING

Belvoir initiated this strategy with the purchase of two businesses since the start of July. These deals not only increased its presence in the Midlands but transformed it into a three-brand company. This is similar to how estate agency and property services group **Countrywide (CWD)** operates, which has more than 50 brands allowing for greater presence in a particular district.

In July, Belvoir bought East Midlands-based Newton Fallowell and its 30 franchised offices and a corporate lettings business (8 Jul). This was followed by the acquisition of Goodchilds Estate Agents & Lettings last month (5 Oct), which adds 16 outlets across the West Midlands to its network. This gives the company 211 outlets in total but unlike previous acquired franchises, these new branches will not be rebranded. There are currently 164 Belvoir branches in the UK.

These deals are also earnings enhancing, adding £1.2 million to Belvoir's core management fee – the 12% cut it takes of franchisees' revenues.

Another area Belvoir has on the wish list this year is to expand property sales across the network. In 2013 the company started an estate agency pilot scheme and 53 outlets were selling houses at the end of June. Property sales were 5% of revenue in the six months to 30 June, but 15% of profit.



Management are not getting carried away by chasing high margin business with lettings remaining the primary focus due to the market's defensive nature and the recurring revenues it generates.

A LOOK AT THE FIGURES

The core management service fee improved by 14% to £1.7 million in the six months to 30 June compared to the same period of 2014. This came despite what management describe as a 'difficult' first half to recruit new franchisees due to May's general election where tenant fees could have been banned and rent controls introduced if Labour had been voted into 10 Downing Street. Management target at least six new franchises in the second half and had already appointed four between 1 July and 9 September.

Consensus expects pre-tax profit of £2.2 million in 2015, up from £1.8 million in 2014, rising to £2.9 million in 2016. The shares trade on 14.4 times forecast earnings for 2016 and offer a 5.6% prospective yield.

BELVOIR LETTINGS

(BLV:AIM) 123p

Stop loss: 98.4p

▲ BUY

Market value:
£33.7 million

Prospective PE Dec 2015:
18

Prospective PE Dec 2016:
14.4

Prospective dividend yield:
5.6%

Bid/offer spread:
4.76%

Analyst price target:
155p*
*Cantor Fitzgerald (4 Nov)

Growth: HIGH
Rising demand and low supply will force rental prices higher. More than one outlet in a district will give Belvoir a larger slice of the market.

Risk: MEDIUM
The Government is unlikely to introduce rent caps while fewer houses are being built to meet demand.

Quality: MEDIUM
Despite profits expected to climb the dividend is less than twice covered by earnings, meaning that if profits are lower than expected the dividend could be cut.

* FTSE All-Share comparative performance is from start of each Plays trade until present. The portfolio consists of 98 stocks and runs on a 12-month rolling basis. There are 73 open positions; we have taken profits or the stop loss has been triggered on the remaining stocks. In the past 12 months, the FTSE All-Share is down 3.4%.

BROKER RATING: SELL HOLD BUY NOT AVAILABLE

Sweet on Tate & Lyle

Tuck into ingredients group for yield and ambitious new targets

JAMES CRUX

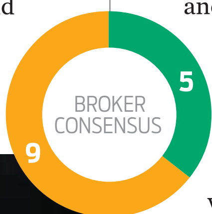
Now's a great time to tap into the turnaround at food ingredients giant **Tate & Lyle (TATE)**. Having stabilised the business, CEO Javed Ahmed's ambitious new targets should pave the way towards more sustainable earnings growth and cash flow generation. Meanwhile, forecast risk is shifting to the upside and there's a chunky yield to tide investors over until the turnaround bears profitable fruit.

TASTY TURNAROUND

London-headquartered Tate & Lyle is a major supplier of ingredients and solutions to global food and beverage clients as well as selected industrial customers. Through its large-scale, efficient manufacturing plants, Tate's innovative technology turns raw materials into high-quality ingredients that add taste, texture and nutrition to food and drink products.

The company operates through two global divisions, Speciality Food Ingredients (SFI) and Bulk Ingredients, and across two main industries; corn wet milling, a large industry in the world's corn-growing regions, and high-intensity sweeteners, a market worth a bumper $1.22 billion in 2014.

It is fair to say 2014 and 2015 were torrid years for Tate, which posted a string of profit warnings caused by issues including supply chain disruption and downwards pressure on prices for key brand 'SPLENDA Sucralose'. However, the £2.76 billion cap looks to have turned a corner. Solid interims (5 Nov) showed 28% growth in adjusted profit before tax to £103 million and a £34 million reduction in net debt to £521 million. Reassuringly, Tate & Lyle also maintained its full-year profit guidance.



NUTRITIOUS TARGETS

Ahmed also unveiled new targets to deliver 70% of group profits from the higher-margin SFI business (excluding any contribution from Sucralose), as well as 30% of SFI sales from Asia Pacific and Latin America by 2020. In addition, management is targeting $200 million worth of revenue from an innovative new product pipeline, spanning sweeteners, texturants and health and wellness products, by the aforementioned date.

Shares believes Tate is pursuing the right strategy by focusing on higher-margin Speciality Food Ingredients, which involve special technology or patents, while lessening its exposure to commoditised bulk ingredients. SFI operating profits grew 28% to £76 million in the half, with the help of better execution and strong growth from new products targeted at the health and wellness space.

Tate expects the speciality food ingredients market will grow at a mid-single digit pace over time and believes it can outpace this growth with the help of bolt-on acquisitions, whilst improving margins. At the same time, it will target stable earnings from the bigger, though lower margin, Bulk Ingredients business, spanning bulk sweeteners, US corn sweeteners and industrial starches.

The year to March 2016 is very much a transitional year of restructuring for Tate & Lyle, which will benefit in time from the addition of new SFI capacity, set to come on stream in the second half-year. Liberum Capital, with a 'buy' rating and 690p price target, argues 'Tate has turned the corner and FY16 is an inflection point.'

For the current year, it forecasts reduced pre-tax profit of £209 million (2015: £210 million), ahead of a rebound to £221 million in 2017, as one-off items drop out and new SFI capacity comes on stream. The broker forecasts a maintained dividend of 28p this year rising to 29.4p next, meaning Tate offers investors an attractive 4.6%-4.9% dividend yield while they wait for the recovery to begin in earnest.

TATE & LYLE

(TATE) 605p

Stop loss: 484p

BUY

Market value: **£2.76 billion**

Prospective PE Mar 2016: **15.9**

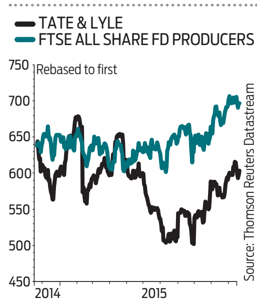
Prospective PE Mar 2017: **15.4**

Prospective dividend yield: **4.6%**

Bid/offer spread: **0.17%**

Analyst price target: **690p**

*Liberum Capital, 10 Nov 2015



Growth: LOW

Forecast top-line growth is modest, through new products and M&A could boost revenue.

Risk: MEDIUM

Tate & Lyle faces cut-throat competition for SPLENDA Sucralose and must contend with volatile commodity costs and FX risk.

Quality: MEDIUM

This is a cash generative market leader with an innovative product pipeline.

DIPLOMA (DPLM)

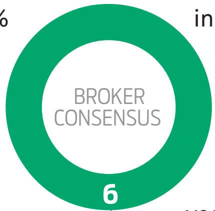
SHARES IN **DIPLOMA (DPLM)** gained 17% in a day when full-year results were announced on 16 November 2015 helping the specialist distributor firmly into the black one month on from our original call.

Gains were prompted by a flat second half underlying revenue performance, better than the market had feared.

'Early in the year we felt we were giving signals about what was happening in industrial markets and they were not being echoed by others,' says chief executive Bruce Thompson.

'But industrial companies are now talking about tougher markets and against that backdrop we have seen resilient performance in our businesses.

'We are looking for GDP-plus underlying sales growth and accelerating that with acquisitions but GDP-plus might not be a very large number in the next year.'



Underlying revenue growth was 1% across Diploma's three key sectors: Life Sciences (4% growth), Seals (4%) and Controls (-5%). Operating margin was 0.4% lower at 18.1%.

A key headwind for Diploma in the year ahead are its sales into Australia and Canada. The two mining-driven economies represent 20% of sales and have seen their currencies slide 20-30% in the last year.

'We've looked for price concessions from suppliers and we have worked hard on costs but it still has a major impact on the business.'

Consensus analyst estimates give an earnings per share forecast of 40p in 2016.

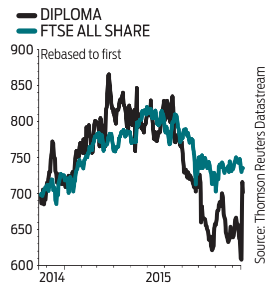
SHARES SAYS: ▲▼

A tough year ahead but Diploma is well positioned in resilient markets. (WC)

701p

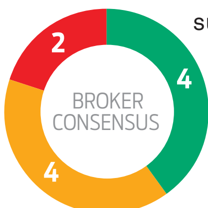
Gain to date: 11.1%

Original entry price:
639p, 17 Oct 2015



FIDESSA (FDSA)

IT'S EARLY DAYS but there seems to be an increasingly large cloud of negativity hanging ominously over trading systems supplier **Fidessa (FDSA)**, which suggests our *Play of the Week* short trade call on 5 November may deliver more profit fireworks. The stock is already nearly 4% down since then but the company's capital markets day (CMD) on 10 November seems to have done little to allay analyst worries over growth challenges, consolidating end markets or the mind-boggling rating. As Investec's Julian Yates explains, 'with only muted profit progression, we struggle attributing a premium valuation, with the dividend yield being the main valuation support.' The analyst retains a 'hold' recommendation on the stock, as does Panmure Gordon, with only Numis apparently seeing upside, the broker's £23.55 price target implying a gravity-defying 2016 price to earnings (PE) multiple of 31.4. FinnCap's Andrew Darley appears to accepted what we see as an inevitable de-rating, switching his 'hold' rating to 'sell', and slapping a £17.50 target on the stock.



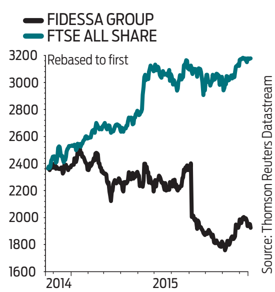
SHARES SAYS: ▲▼

Short sell trades are short-term and we'll keep a close eye on momentum, but there looks precious little to support the stock on a current 2016 PE of 24. (SFr)

£19.15

Gain to date: 3.9%

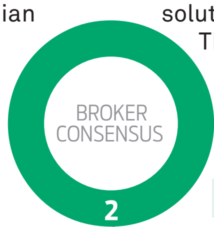
Previous *Shares* view:
Sell at £19.92, 5 Nov 2015



FUSIONEX (FXI:AIM)

WE'VE BEEN LONG-RUN fans of Malaysian business intelligence and analytics software supplier **Fusionex (FXI:AIM)**, and a highly promising strategic partnership with US tech giant Dell only re-enforces that view. This agreement will see the pair team up to provide customers in Asia with industry-leading, easy-to-deploy big data analytics solutions, or in other words, Fusionex's *GIANT* tools suite.

'We view this significant milestone as the beginning of a great partnership with immense potential,' spells out Fusionex CEO Ivan Teh, adding that 'together, we will be able to offer Fusionex's *GIANT* software and Dell's infrastructure to form a complete end-to-end solution.'



That Dell is also in the middle of the takeover of IT delivery expert **EMC (EMC:NYSE)** also suggests that Fusionex's end market will expand significantly down the line too.

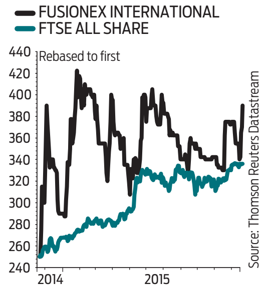
SHARES SAYS: ▲▼

***Shares* first flagged the growth potential back on 9 January 2014, and we pitched the stock as a *Play of the Week* on 27 November 2014 at 300p. As with many UK equities, 2015 has proved to be a bumpy ride yet the stock now trades 30% up on that *Play*, and we have little doubt that the company and the share price will continue their forward trajectory in the years ahead. Still a buy. (SFr)**

390p

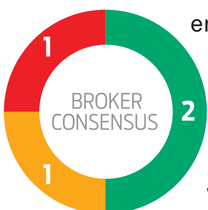
Gain to date: 30%

Previous *Shares* view:
Buy at 387.5p, 4 Jun 2015



MAJESTIC WINE (MJW:AIM)

OUR BULLISH CALL on the UK's largest wine specialist is 6.6% in the red, not helped by the retailer's uncorking (16 Nov) of a 50% slump in interim pre-tax profit to £4.3 million, albeit struck after non-cash charges and exceptionals. Impatient investors may have also bridled at earnings downgrades, reflecting the costs associated with new CEO Rowan Gormley's three-year transformation plan, which will mean profit declines further this year. Yet we are sticking with our positive view on the stock for a number of reasons, not least Gormley's ambitious targeting of at least £500 million of sales by the year to March 2019. Underlying trading in the legacy Majestic business encouraged in the half, with commercial sales up 8% and retail like-for-likes 2.3% ahead, representing the best same-store performance since 2011.



Significantly Naked Wines, the highly complementary online crowd funded wine retailer acquired in April, grew sales an impressive 36% to £42.2 million (the US proved the standout performer) and has achieved profitability six months ahead of plan.

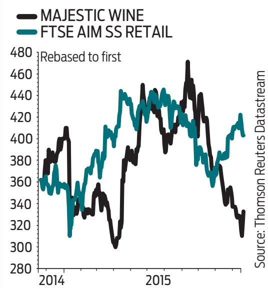
SHARES SAYS: ▲▼

Further downgrades are disappointing, yet new management is turning the legacy retail business around, while Naked Wines' growth potential is exciting. (JC)

332.75p

Loss to date: 6.6%

Original entry price:
356.38p, 16 April 2015



Flimsy foundations

Housebuilders have had a phenomenonal run but is it now time to cash in?

SEAN FLYNN

Runaway demand chasing scarce supply remains very much the order of the day in the UK housing market. And perhaps in the economic equivalent of a laboratory clean-room, this dynamic might translate to endless upside for housebuilders.

The likes of **Barratt Developments (BDEV)**, **Taylor Wimpey (TW.)**, **Persimmon (PSN)** and **Berkeley (BKG)** are after all in the privileged position of controlling some of the most important levers in this particular market and indeed the wider economy as a whole, such is the enduring British fixation with home-ownership.

MARGIN FOCUS

Although Taylor Wimpey reported margin and volume growth in a recent trading update (16 Nov) and gave a rosy summation of the state of the UK housing market these big operators are on demanding valuations and their future growth prospects look limited. For this reason, we prefer **MJ Gleeson (GLE)** and **Bellway (BWY)**.

The UK's housing market doesn't operate in a vacuum. The country's chronic housing shortage is governed by numerous and far more unpredictable variants than mere supply and demand.

Government intervention in the form of the Help To Buy scheme is clearly a demand driver in this overheating market while record low interest rates have made cheap debt available while offering a mirage of affordability. By the same token, lower rates have fuelled prices and when rates finally do rise, incomes are likely to be squeezed and consumer spending crimped and this will almost certainly drag on growth in an economy so dangerously over-reliant on house price inflation.

To put the current situation in some context; research suggests that in the 1960s, real estate accounted for about 35% of bank lending in advanced economies. Today, in Britain, it accounts for almost 80% with two thirds of that going on mortgages.

Right now however, make hay while the sun shines seems to be the order of the day in the market place. Given increasingly mixed signals from the residential sector, the question has to be where (if at all) can investors expect to find any value?

Balance sheet discipline remains one of the defining characteristics of the sector at least since the 2007/8 financial crisis and with plenty of cash to return to shareholders, investors can – for the next six to 12 months at least – expect some attractive yields.

Take a builder like Persimmon which, on the face of it, is not a cheap stock. Its shares have risen 17% year to date but a dividend yield of 5.1% is likely to keep investors on side. This is stock worth holding onto if you think that margins and returns can only go one way but it probably doesn't offer the greatest upside at the current entry price of £18.53.

There are no shortage of analysts out there who will happily tell you that the valuations of the largest housebuilders in particular are simply too optimistic to withstand the gross margin pressure that can be expected in the coming years.

They could be right. While Taylor Wimpey for example has made good use of its strategic land bank to keep land costs under control, it has started to look expensive and if gross margins were to come under any kind of sustained pressure the shares could struggle

Margin pressure has of course been the much-trailed big story in the sector that has (so far) not really impacted. There have been some ominous signs in terms of an incipient skills shortage and materials price inflation. Land prices however remain largely benign which distinguishes this particular housing bubble from other periods of exuberance.

As more credit becomes available to small and medium-sized builders however, that sweet spot in real estate could turn sour in pretty short order. One of the sector's better weathervanes for both land prices and long-term progress is Berkeley. Its chairman Tony Pidgley's nose for a bargain in real estate and his sense of the market make the builder something of a gold standard in the sector, operating as it does at the high end both in terms of product offering and regional market focus.

HUNTING OPPORTUNITY

Investors looking for opportunity in the housebuilding sector will almost certainly find better value among the builders who can grow profits by raising output.

This probably rules a lot of the bigger players out as they move their focus away from increasing volumes and concentrate on growing yield and of course maintaining margins. The term 'affordable' has become something of a joke to house-hunters, particularly in the capital where it's not altogether clear to which rarified demographic a £250,000 studio in Zone 4 is affordable but for investors looking to put their money in an actual socially responsible house-builder which continues to grow volumes, then look no further than MJ Gleeson.

On the one hand, the £271 million cap is in the business of providing high quality affordable housing to a working class customer base, predominantly in the north of England. On the other, Gleeson is successfully exploiting opportunities in the lucrative strategic land market in the south of the country.

When talking to management, it's clear that Gleeson takes pride in its affordable housing model which focuses on estate regeneration; giving the builder access to a ready supply of brownfield land at which the major housebuilders would balk. The group's low average selling price (still under £125,000) puts home-ownership within the reach of normal working families in the north, with the majority of buyers coming from within three quarters of a mile of their new homes.

Finals from the group in September confirmed another year of significant growth with operating profit doubling for the second year in a row. The outlook for Gleeson remains positive both in house-building and strategic land as it looks to extend its affordable model beyond its traditional North of England heartlands.

Another group that looks comfortable – at least for the time being – with the task of growing volumes is Bellway. The £2.97 billion cap exemplifies the kind of balance sheet discipline that the sector has almost unanimously adopted and – according to full year results on 13 October, Bellway remains committed to a strategy of orderly volume growth.

Investors should keep an eye out for any evidence of the group targeting areas of high demand. Management has made it clear that should the opportunity present itself, expanding Bellway's existing network of seventeen operating divisions is definitely on the cards.

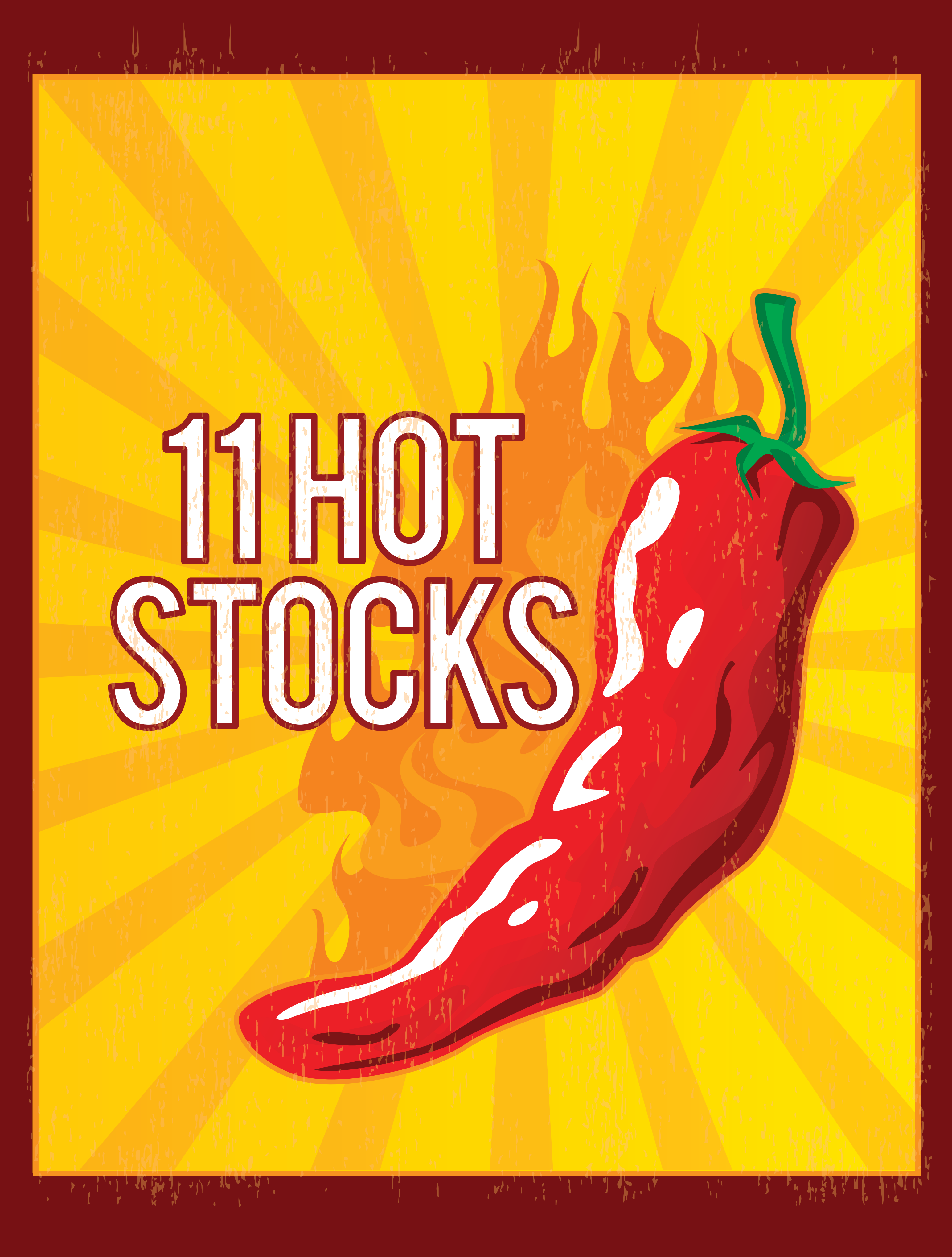
STRUCTURAL ISSUES

So while a number of factors in the housing market are broadly supportive of further growth, there remain a number of structural features that should warn investors against complacency. The buy-to-let segment has been a boon to sellers but it looks like this party's punch-bowl could soon be taken away.

The buy-to-let mortgage review being conducted by the chancellor is expected to conclude soon and the Bank of England's Financial Policy Committee (FPC) is set to be conferred with powers to set limits on lending in this market with immediate effect. The expected measures could include increasing stress testing or setting limits on high risk mortgages.

SKILLS SHORTAGE

WHILE BRICKLAYERS STILL remain at premium, an emerging skill shortage in the electricians' trade, to a certain extent, reflects the progress being made on projects started over the past year or so as they progress through to final fix. This would appear at least to be the experience of small to medium-sized builders. A Northern SME Housebuilders Lunch on 4 November saw Glen Wilson, head of property at Lloyds Bank tell an audience of residential professionals that the sector was confident and expected to grow further. A Lloyds Bank report into SME housebuilder segment found that around 75% of businesses surveyed said they were looking to grow staff numbers, although 24% also said that the biggest challenge facing their business was the skills shortage, particularly for electricians.


11 HOT
STOCKS

WE SHOW YOU THE BEST WAYS TO PLAY FIVE BIG TRENDS

TOM SIEBER

The market loves a good narrative. An easy-to-understand story which chimes with people's own experience and the latest global developments can sustain the momentum behind a stock for an extended period.

Just look at **ASOS (ASC:AIM)** – once a penny share, the stock hit an all-time high above £70 in February 2014 as it benefited from an increasing shift towards people buying high street fashion items via the internet.

Hot themes are a valuable kicker to an investment which also enjoys sound fundamentals and commands a realistic valuation. They are worth monitoring because they often reflect a genuine shift in an industry or market and which can benefit a certain sub-set of companies.

Consultancy group McKinsey recently outlined some key advantages of thematic investing. 'Adopting a thematic-investing approach can yield three types of benefits for investors.

'First, it allows investors to generate alpha at scale by focusing on investment opportunities in hot spots where a significant amount of capital can be deployed.

'Second, the more systematic investment process and in-depth research required for thematic investing builds a deeper understanding of the underlying drivers of value creation and risk; investors can use this knowledge not just in thematic investing but also in other strategies.

'Third, it provides investors with a dynamic and flexible way to validate and express their hunches by applying a forward-looking lens to investment decisions.'

With this in mind *Shares* has dug out five hot themes and identified the best ways to get exposure.

1. The transition towards digital payments. Transactions have been shifting from cash to card-based payments for decades and the growth of e-commerce has helped speed up this process via online transactions. The transition provides structural growth for the e-payments industry on top of any underlying growth in consumer spending and/or inflation. Names in this space include **Worldpay (WPG)** and **Safecharge (SGC:AIM)**.

2. The continuing rise of e-commerce. With some analysts estimating that the click and collect segment could grow by more than two-thirds and be worth more than £4 billion by 2018, it's clear that consumers continue to put convenience at a premium. **Clipper Logistics (CLG)** and **N Brown (BWNG)** are among our key plays on this theme.

3. In-car technology is one of the fastest-growing niches in the tech space as consumers and regulators push safety, comfort and staying connected. Increasingly an extension of your front room on the road, key players in the space include **ARM (ARM)**, **Seeing Machines (SEE:AIM)** and **Laird (LRD)**.

4. The rise of the machines. Robots may be after your job but in the interim there may be an opportunity for investors to benefit from the increasing adoption of automated solutions. **AB Dynamics (ABDP:AIM)** and **Strat Aero (AERO:AIM)** are two small caps which tap into this niche.

5. A booming restaurant sector. Amid increasing consumer confidence more of us are eating out and the development of an enduring restaurant culture in the UK could be good news for the aptly named **Restaurant Group (RTG)** as well as ceramics firm **Churchill China (CHH:AIM)** and meat supplier **Cranswick (CWK)**.

PAYMENTS GO DIGITAL

WILLIAM CAIN

BUSINESSES OPERATING IN attractive and growing end-markets are naturally a good place to seek out stock market opportunities – provided they trade at the right price.

These structural growth drivers, rather than their more commonplace cyclical counterparts, can help drive sales and profit growth for many years, especially where barriers to entry exist.

There can be few more inevitable trends in an increasingly online, high technology, global economy than the rise of digital payments.

Warren Buffett and his **Berkshire Hathaway (BRK.A:NYSE)** investment vehicle was among the first to cotton on to this trend via an early investment in **American Express (AEX:NYSE)**, a pioneering force in building card payments infrastructure, in the 1970s.

While that's a long time ago, the shift from cash to card payments has accelerated even more rapidly in the last decade as the digital economy, via internet shopping and e-commerce, captured ever increasing volumes of retail spend.

And there is still plenty left on the table to entice investors. Growth in credit and debit card transactions by value in the G10 countries are forecast to grow between 7-8% annually between 2015 and 2019, according to researchers at Euromonitor.

Since the pioneering efforts of Amex in the 1970s, in most countries **Visa (V:NYSE)** and **MasterCard (MC.:NYSE)** have taken up the mantle.

These two businesses remain a compelling way to play the growth in digital payments worldwide.

Until recently, there was an overwhelming lack of alternatives – particularly in the UK. That has now changed with the flotation of payments outfit **Worldpay (WPG)**, a business we recently covered in detail and like as one, admittedly risky, way to gain exposure this theme.

There are other long-standing payments business in the UK. **Park Group (PRK:AIM)** has a track record going back three decades, though until recently it has been built around old technology rather than new. Its voucher-based Christmas savings scheme is being brought into the digital age and the business now offers prepaid cards through the MasterCard brand.

We believe Park Group has made good steps in revamping its business for the digital age but there is still work to do.

Paysafe (PSF:AIM), until recently known as Optimal Payments and listed as Neteller in 2004, is another with a reasonable history on the public market but its track record is chequered. Paysafe's acquisition of Skrill in March 2015 makes the business potentially large enough to be included in the FTSE 350 index, with a decision expected sometime ahead of the FTSE's 31 March 2016 reshuffle and assuming it manages to move from AIM to London's Main Market.

The deal in part mitigates a large customer concentration to a single online Asian gambling company. Yet until investors have more information on how the combined group is trading there's too much uncertainty for us to be bullish.

Small cap **Safecharge (SCH:AIM)** is another up-and-coming player in the payments market. It was behind the electronic-ticketing solution designed for Visa in the 2012 London Olympics. Out of this solution it is developing an online current account-style product which will be known as Pay.com which opens the business up to another fast-growing electronic payments market.

GLOBAL PAYMENTS

CARD PAYMENTS OPERATE so quickly it's easy to take for granted the devilishly complex technology that allows it to happen.

Each time a consumer places their bank card into a payment terminal, in a store for example, a process kicks in linking four specific parties.

The first is you, the buyer, when the card is presented to the device. The second is your bank or card provider.

Third is the seller of the product, usually the retailer. And the fourth party in the transaction is the business which links the retailer to you and your bank. In the UK, more often than not, that is **Worldpay**.

Known as a merchant acquirer Worldpay offers retailers the ability to accept a range of payment types through its relationships with the operators of those payment schemes.

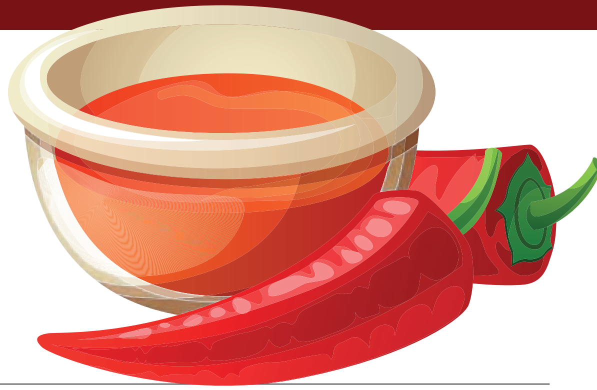
Often, merchant acquirers provide card readers and other payment equipment to retailers through partnerships with terminal manufacturers. It's no coincidence **Ingenico (ING:EPA)**, which itself sells card readers, registered an early interest in buying Worldpay before eventually being priced out of the bidding process.

Worldpay's market leading position in the UK is one reason it was possible to roll out the ApplePay system so quickly in the country.

Historically, the role of merchant acquiring has been performed by banks themselves and Worldpay was previously part of **RBS (RBS)** before a private equity buy-out. Now merchant acquiring has evolved into a standalone industry with Worldpay, **Global Payments (GPN:NYSE)** and **First Data (FDC:NYSE)** among the biggest players.

WORLDPAY
278.75P

E-COMMERCE EXPANSION



JAMES CRUX AND SEAN FLYNN

INVESTORS CAN PLAY channel shift to the web through pure-play online retailers including **Boohoo.com (BOO:AIM)** and ASOS as well as through retailers with well-invested omni-channel propositions, **Next (NXT)** and **SuperGroup (SGP)** among them. Any discussion of the e-commerce trend needs to include **Amazon (AMZN:NDQ)** and also **Ocado (OCDO)**, the online supermarket having success with new customer growth and product range expansion. With the latter name, there are bear points to note however, with competition in a deflationary grocery market hotting up and investors having to be mindful of a stratospheric valuation.

One interesting play on the theme is outsize apparel retailer **N Brown (BWNG)**, a leading multi-channel fashion retailer focused on structurally-growing plus-size and mature niches. Though interim pre-tax profit (14 Oct) fell 15.9% to £35 million, performance was affected by the ongoing costs of a strategic transformation from a catalogue business into a 'truly digital first, specialist-fit, fashion retailer'. N Brown, now half way through its investment in the 'Fit 4 the Future' digital transformation project, generated 63% of sales online, up significantly from 58% in the first half last year. Mobile devices now account for almost two thirds of online traffic, with youth-oriented power brands Jacamo and Simply Be enjoying particularly high online participation.

House broker Shore Capital forecasts broadly flat pre-tax profit of £86.5 million (2015: £86.2 million) for the year to February 2016, though a return to growth is predicted for FY17, when profits are estimated to reach £93.9 million. Swapping hands at 357.9p, N Brown trades on 14.6 times Shore's 24.5p earnings per share estimate, undemanding given growth potential underpinned by improving digital capabilities. A prospective dividend yield of 4%, based on a maintained 14.2p payout, should limit the downside.

HANDLING LOGISTICS

Not only is retail logistics specialist **Clipper Logistics (CLG)** a strong play on a rally in UK consumer spending, more importantly it also looks to be ahead of the curve in the ongoing shift to online shopping as it handles the movement of clothing – crucially both in terms of deliveries and returns – for the likes of ASOS, Zara and New Look. Analyst Steve Woolf at Numis maintains that the group 'is well-placed to benefit from the increasing complexity of an evolving omni-channel retail market, with the potential for high profit growth over the medium term.' In July, long-standing client John Lewis contracted the Leeds-based logistic specialist to develop fulfilment solutions for the retailer's click and collect orders; a deal that fits neatly with the company's ongoing narrative.

N BROWN
357.9P

CLIPPER LOGISTICS
244.5P

Returns management is another channel where Clipper has already shown significant nous in terms of the rag trade. Potential for further expansion into areas like electrical goods returns could open up whole new revenue streams. Further progress on click and collect penetration can only be a boon for the company.

Clipper is a different type of business than parcel delivery firm **DX Group (DX.:AIM)** which has warned on profits (13 Nov). Citing a raft of issues from faster-than-expected declines in the group's DX Exchange business to an industry-wide driver shortage, the £66.3 million cap slashed its dividend from an expected 6.1p, to 2.5p. Shares in DX tanked as a consequence, falling 66.7% on the news.

FORECAST RETAIL SALES GROWTH AND OFFLINE, 2015 (AT CURRENT PRICES)

	Online sales growth	Store-based sales growth	All retail sales growth (online + store based)
UK	16.2%	-2.0%	3.5%
Germany	23.1%	-1.8%	2.0%
France	17.0%	-1.7%	1.2%
Spain	18.6%	-0.6%	1.2%
Italy	19.0%	-1.0%	0.3%
Netherlands	16.8%	-1.4%	1.0%
Sweden	15.5%	-1.2%	2.9%
Poland	21.0%	-0.6%	3.6%
Europe	18.4%	-1.4%	2.0%
U.S.	13.8%	-1.9%	3.6%
Canada	13.2%	-0.4%	2.4%

RetailMeNot

TECH ON THE ROAD

'LEGISLATION AND CONSUMER DEMAND IS DRIVING THE IMPLEMENTATION OF ADVANCED DRIVER ASSISTANCE SYSTEMS AND HIGHER ELECTRONICS CONTENT IN INFOTAINMENT, POWERTRAIN AND COMFORT.' LIBERUM

STEVEN FRAZER

SCIENCE AND ENGINEERING advancements are rapidly turning your car into a real mobile box of tricks, and they are increasingly becoming on-the-go extensions of our homes. Your own music library, TV shows for the kids, calls and connectivity to help you avoid traffic jams, while staying in touch with the rest of your friends and family.

Many analysts believe in-car technology is among the fastest-growing in the tech eco-sphere, thanks to PCs going ex-growth, while smartphone and tablets head towards saturation. And it's a long-run theme that powers some of the highest growth rates for technology companies over the next decade. This is a combination of compound annual growth rate (CAGR) of almost 4% in new car sales, rising electronics content, and increasing consumer preference for enhanced comfort and safety features. IDC forecasts automotive semiconductors, for example, to grow at 9.4% CAGR, compared to 3.4% for wireless communication and 3.3% for the overall semiconductor market.

We see some of the best UK investment opportunities via UK chip designs champion **ARM (ARM)**, antenna's designer **Laird (LRD)** and, on a longer time frame, **Seeing Machines (SEE:AIM)**, the driver-monitoring kit supplier. But as you might expect, some of the world's biggest technology companies are also keen to carve their own automotive niche.

LAND OF GIANTS

Apple (AAPL:NDQ) and Google, now officially called **Alphabet (GOOG:NDQ)**, are exploiting their experience and expertise to provide streamlined in-car systems, while rumours persist that the former is giving serious thought to kick-starting its very own car making business. Tim Cook, chief executive officer of Apple, recently warned that the global automobile industry is on the brink of a technology-led upheaval, in an interview with the *Wall Street Journal*, saying that 'I do think that industry is at an inflection point for massive change, not just evolutionary change.'

Over the past few years consumers have seen major changes to how cars operate, protect passengers, self-park, even arguably, thinking for themselves. Manufacturers are constantly innovating and evolving, from complex sound systems to zoned climate controls, connected smartphones to car performance settings.

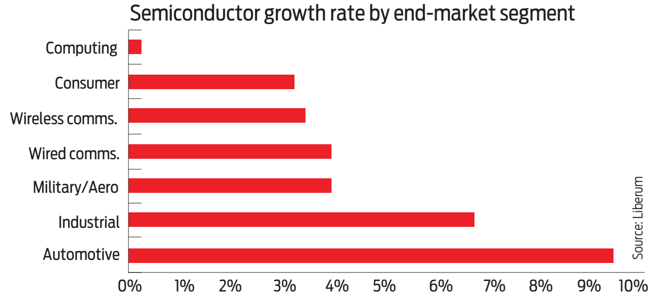
Just look at **Tesla Motors (TSLA:NDQ)**. Since its conception in 2012 the release of Tesla's *Model-S* has made a significant impact on the automotive industry. Its creator Elon Musk has altered the general perception of the electric vehicle, transforming it from lab rat to poster boy. The standard in-car user interface (UI), a relative mash-up of buttons, knobs, sliders and switches, have been entirely replaced with a single 17-inch touch display, it's basically a tablet on the dashboard.

But the trend goes far deeper than driver operating UI, it's under the bonnet, in the bodywork, security, everywhere.

'Electronics content is increasing in almost every automotive sub-system, a trend that is expected to continue over the next decade as we move towards more autonomously driving cars and electric drivetrains,' explain Janardan Menon and Eoin Lambe, analysts at broker Liberum. They see key areas as safety, through ADAS (advanced

ARM
£10.41

LAIRD
345P

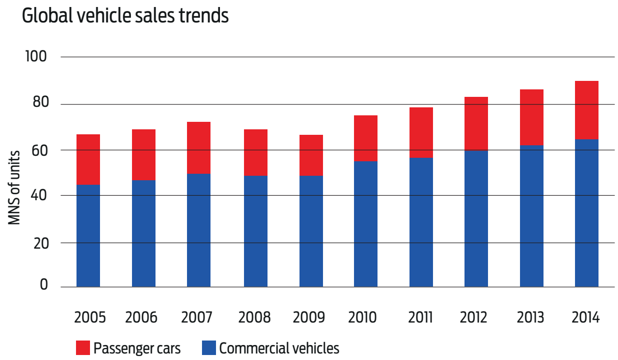


driver assistance systems), infotainment, comfort and the powertrain, effectively the kit that connects engine power to make the wheels go round. 'By 2030 electronics is expected to make up about 50% of the cost of the car, up from around 30% currently,' reveals Liberum.

SAFETY RULES

Legislation, increased focus on road safety, and efforts to develop self-driving cars are resulting in a rapid increase in the deployment of ADAS, including stuff like adaptive cruise control, automatic emergency breaking, lane departure warning, automated parking, blind spot detection, collision avoidance and driver drowsiness detection. This is core tech competence for German auto chip supplier **Infineon (IFX:ETR)**, but also an opportunity for **TT Electronics (TTG)** which generates about 40% of its £525 million revenues from supplying sensors to the auto industry.

Liberum accepts that the infotainment side is less easy to pick winners, where component suppliers and platform vendors are currently slugging it out and some able to port solutions from smartphone heritage. Still, they regard Laird as 'a safe bet,' given its narrow



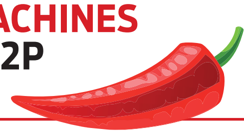
focus on antennas. 'We expect Laird to leverage its strong position in AM/FM antennas into higher value products serving the needs of GPS and cellular communications,' suggest Liberum's Menon and Lambe.

ARM architecture currently has about 10% share in automotive microcontrollers, which continues to rise steadily, but this looks like a market on which the Cambridge firm's boffins can build.

But it's not going to be plain-sailing for this industry niche, certainly not while market shocks can come out of nowhere. The emissions scandal that has rocked **Volkswagen (VOW:ETR)** has had far reaching consequences, not least with **Ubisense (UBI:AIM)**. The indoor/outdoor location technology company was forced to warn on profits on 12 November after the German cars colossus mothballed many of its facility refits that would have meant installing Ubisense's real-time locations software (RTLS) systems. That news smashed the UK company's shares, plunging 40% over two days from 83p to 50p.

'The fact remains that Ubisense's over-reliance on a small number of large contracts, coupled with poor revenue visibility, leaves it susceptible to shocks such as this,' said Mike Rogers, analyst at IT consultancy Megabuyte on the day of the warning.

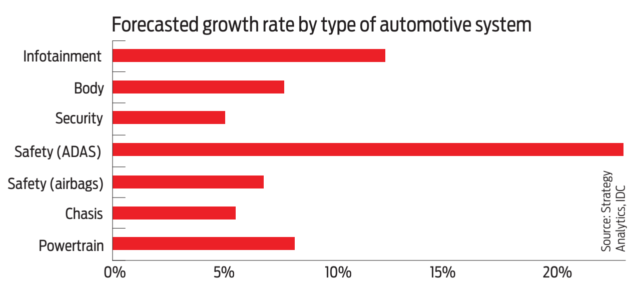
SEEING MACHINES
5.12P



DOWN THE LINE

Taking a longer-term view, we think there is also scope for Seeing Machines to capture meaningful market share as it grows its rugged driver safety systems (DSS) out from its mining vehicles sub-sector niche and expands into the wider motor industry. That will start with trucks, the only real issue is if, or more likely when, it can use economies of scale to drive down the per unit cost, from something like £5,000 to the £1,000 to £1,500 at which price installation adds up for manufacturers. But we are also decades away from true mass-market self-driving cars, and there's no reason why private cars should not provide at least an interim technology stop-gap.

While the automotive technology backcloth looks highly promising for investors we should not get carried away too far, too fast. 'Our own forecast is more conservative at 8% CAGR (semiconductors), but does not assume any acceleration in sales of cars with electric drivetrains,' explain Liberum's Menon and Lambe. Yet they accept that their current growth calculations could easily start to look on the cautious side, adding that 'many market research companies, like IDC and IC Insights, are already forecasting five year growth rates of 9.4% and 10.8% respectively.'



RISE OF THE MACHINE

TOM SIEBER

AS PROMISED BY shows like the *Jetsons* 50 years ago, robots are set to play an increasingly important role in a number of spheres in the coming decades. For example, Japanese car maker **Toyota (7203:TYO)** has announced plans (9 Nov) to invest $1 billion in a Silicon Valley research company to develop artificial intelligence and robotics. And a new report (12 Nov) from the Bank of England suggests up to 15 million jobs could be at risk of being replaced by robots in the UK.

Last year was the third in row for record global sales of robots according to the International Federation of Robotics (IFR). In total 229,000 robots were sold, up 29% on 2013's level.

With only 66 robots per 10,000 workers worldwide based on IFR figures the scope for continuing growth is clear. This is particularly relevant when you consider penetration in the Japanese autos sector – which has been at the forefront of the application of robotics – stands at 1,520 robots per 10,000 employees.

Greater adoption of automated solutions looks plausible given the cost of robots is falling and their performance is improving. According to researcher McKinsey advanced robotics is expected to generate an economic impact of $9 trillion by 2025.

Investors looking to play this theme have a number of options. Broad-based exposure is possible through exchange-traded fund **ROBO-STOX GO UCITS ETF (ROBO)** and a newly launched actively-managed collective from Pictet Asset Management; **Pictet Robotics (LU1279334301)**.

For individual stocks, we highlight **AB Dynamics (ABDP:AIM)** as a leader in test driving robots for the automotive industry and micro cap drone specialist **Strat Aero (AERO:AIM)** is enjoying strong momentum following a busy period of newsflow.

To date robots have largely been top down machines – programmed to carry out tasks or controlled remotely by a person. In the long-term artificial intelligence could help develop completely autonomous solutions.

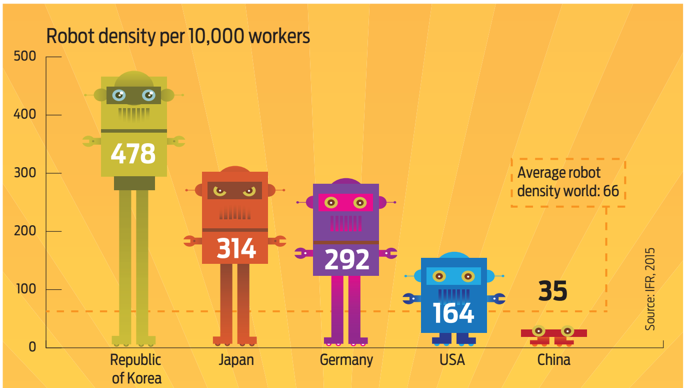
In a fresh piece of research on the robotics theme Bank of America Merrill Lynch comments: 'We are seeing the earliest cognitive stages of human and machine development, where robots are able to collect large amounts of data, analyse it and make optimum decisions, and potentially learn from past interactions. Looking out to the future, we are likely to see the evolution of intelligent machines that can sense and understand human emotion and also show adaptability to their surroundings, rendering them increasingly autonomous.'

AB Dynamics is a true AIM success story. The stock is up 254% on the 86p issue price from its May 2013 IPO with consensus busting full year numbers (12 Nov) acting as the latest catalyst. Despite the significant re-rating Panmure's latest earnings forecast for the 12 months to 31 August 2016 implies a prospective price to earnings ratio of 14.6 against peer **Ricardo (RCDO)** on a PE of 18.5. Sales of track testing systems, which include driving robots and soft crash vehicles, grew by greater-than-expected 21% in the August 2015 financial year and now represent 69% of group revenues. The company's managing director Tim Rogers has previously explained to *Shares* that in the future these robot-driven cars will be able to interact with other automated vehicles and says the knowledge and intellectual property which underpin its systems should help defend its competitive position. Completion of a new facility has been pushed back and is now expected in the first quarter of 2017 but the company has been able to lease additional capacity in the interim.

AB DYNAMICS
305P

STRAT AERO
6.25P

The Unmanned aerial vehicles (UAV) specialist Strat Aero is taking some time to gain traction but we think there is significant potential which is not yet reflected in the share price. It is trying to become a one-stop-shop for the provision of drone-related technology solutions. Chief executive Tony Dunleavy, appointed on 24 September, has told *Shares* the business has a pipeline of $200 million contract opportunities. The acquisition of UAV surveying business Geocurve (30 Sep) adds a revenue stream to the business, until now the only income had been from ad hoc consultancy work. On 27 October the company announced a proposed £1.3 million contract between civil engineer Barhale and Geocurve to provide engineering, inspection and surveying services over a five year period as a part of a wider £1.25 billion framework agreement between Barhale and Anglian Water.



UK RESTAURANT BOOM

EMILY PERRYMAN AND JAMES CRUX

THE UK CASUAL dining market is growing at a rapid pace with a seemingly endless supply of new concepts, from retro cereals to kale smoothies and bubble tea. The sector is expected to achieve spend of over £5 billion by the end of 2017 – 13.7% higher than in 2014, according to NDP.

Our top leisure pick to play appetite for eating out is Frankie & Benny's owner **Restaurant Group (RTN)**. The £1.4 billion cap is opening restaurants at a rapid pace and reckons it can double the size of its estate in eight years. Restaurant Group opened 12 sites in the first half, 13 in the third quarter and plans to open a further 23 to 25 restaurants by Christmas.

RESTAURANT GROUP
639.5P

To some the roll-out plans might seem over-ambitious given the huge rise in the number of casual dining restaurants and the accompanying competition for sites and customers, but this is mainly a problem in London. In the provinces, where Restaurant Group tends to be positioned, there is demand for more restaurants and rents are fairly stable. Another factor in the stock's favour is a large number of its restaurants are in retail parks which operate at full capacity and permit a limited number of eating out options, so there are barriers to entry which stops competition from getting too intense.

This means the group is more insulated from the threat of new entrants than high street-based chains are. Restaurant Group issued a fairly lacklustre trading statement on 12 November, with like-for-like sales up 2% in the first 45 weeks of the year, but the last couple of months should see a boost from the strong cinema line-up, with films like *Spectre* and *Star Wars: The Force Awakens*. Half of the group's restaurants are located next to cinemas. The group also owns Chiquito and is benefitting from the huge surge in demand for Tex-Mex food. At 666p Restaurant Group trades on a 2015 price to earnings ratio of 19.9 which is justified by its strong, visible expansion plans. Canaccord Genuity's target price is 760p, implying 14% upside.

ALTERNATIVE PLAYS

A canny way to obtain exposure to the buoyant casual dining industry in the small cap space is through high-quality ceramics maker **Churchill China (CHH:AIM)**. The Stoke-on-Trent based company supplies tabletop products into the global hospitality and retail markets; key competitive strengths include a brand with global recognition, first-rate design and service quality and a well-invested Potteries-based factory. Churchill China is a business that generates strong operating cash flows and pays a progressive dividend.

RECORD
179 NEW RESTAURANTS IN LONDON IN 2015
SOURCE: HARDENS

CHURCHILL CHINA
697.5P

VALUE OF RESTAURANT MARKET SET TO HIT £52 BILLION BY 2017
SOURCE: ALLEGRA FOODSERVICE

CRANSWICK
£16.61

Its core hospitality division has UK sales momentum and lots of export growth potential. Significantly, Churchill is geared into the structural growth of the UK eating-out market, in which branded pubs and restaurants are gaining share and new site openings and refurbishments are boosting Churchill's order book.

An additional way to play rising consumer confidence, and the boom in eating out, is **Cranswick (CWK)**, the meat supplier with a tasty long-term dividend track record. The food producer looks well-placed ahead of Christmas, as increasingly confident consumers spend more on its competitively-price proteins in the supermarkets. Acquired (23 Oct 14) British cooked poultry producer Benson Park upped Cranswick's presence in the high-growth food-to-go sector, building on the 2012 takeover of Kingston Foods, which started the process of the fully-listed firm's entry into the food to go and fast service restaurant segments.

Fever-Tree to lift spirits

Premium carbonated mixers marvel's growth more than justifies frothy rating

JAMES CRUX

Valuation is one of few bear points in the investment case for premium tonic water-to-ginger beer supplier **Fevertree Drinks (FEVR:AIM)**, the world's leading supplier of premium carbonated mixers for alcoholic spirits by retail sales value.

'Fever-Tree' was launched by Charles Rolls, executive deputy chairman and chief executive officer (CEO) Tim Warrillow in 2005, the pair having identified long-term growth in premium spirits that was not matched by any premium offering in the mixers category. Developed around the quality and provenance of its ingredients, the brand was launched at the ideal moment to provide a quality mixer range to fill a vacuum.

A top-trending soft drinks tipple, Fever-Tree's moniker comes from the colloquial name for the cinchona tree, in which key tonic ingredient quinine is found, and the small cap sources the highest quality natural quinine from the fertile Democratic Republic of Congo (DRC).

Since flotation in late 2014, Fever-Tree's share price has fizzed higher with its compelling global organic growth story attracting investors. The branded beverages play has first mover advantage in premium mixers, which speak for a tiny portion of a mature overall mixer market and are piggy-backing on spirits market premiumisation; consumers are more than prepared to pay for a high-end mixer to wash down their gin, vodka, rum or whisky tipple of choice.

HARD NUMBERS

Following the £628.1 million cap's latest positive trading update (4 Nov), Investec Securities pushed through another round of upgrades. For calendar 2015, the broker forecasts a surge in pre-tax profit to £16 million (2014: £4.4 million) for earnings per share of 11.1p (2014: 6.5p), ahead of £18.1 million and 12.4p respectively for 2016. On these estimates, Fever-Tree trades on eye-watering PE multiples of 48.9 and 43.8 for this year and next, a valuation that presents a de-rating risk on any growth slowdown.

Mindful of the punchy rating and the fact that the price you pay for a share is the ultimate arbiter of your return, I seize the opportunity to scuttle over to Fever-Tree's Kings Road HQ to find out more about the size and scope of the growth opportunity.

'This premium spirit category had been growing all around the world and consumers were becoming ever more interested in the quality of the spirits they were buying,' says the CEO. 'The big spirit companies were concentrating more and more of their time and money on the premium end, where there's better margins. Yet, the very thing that you mix it with was dominated by one global brand (Schweppes), which had been surreptitiously cutting costs, with cheaper ingredients finding their way in.

'So there we were, with this large premium spirit category growing and the consumer with no real choice but to drown it with this increasingly commoditised mixer,' says Warrillow.

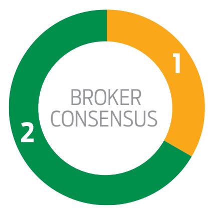
'Fortunately, one of the early breaks we got was Waitrose. After only six weeks of having the product out in the market, their buyer called us and said look we've been waiting for a product like this. That was incredibly reassuring I can tell you, having given everything up to pursue this, to get that kind of reaction.'

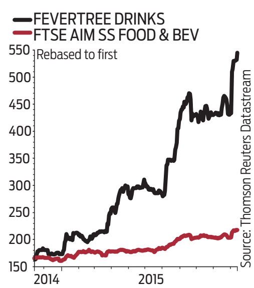
Fever-Tree generated roughly 70% of sales overseas in the first half of 2015. Continuing to expand its distribution into new markets, investors should note the bulk of its worldwide territories remain at the early stage of development. 'Right from the start, we wanted this to be an international business,' enthuses the CEO. 'This premium spirit industry is very international and so we set out to launch very purposely in the key influential cities for new trends. One of those is America and in the gin world, since we launched with tonic, the other was Europe and particularly Spain, where premium gin is a really significant market. This gin & tonic trend really started to take off in the Spanish market and is moving around Europe now.'

BIOGRAPHY

Tim Warrillow, co-founder and chief executive officer

Newcastle University graduate Tim Warrillow joined a London-based advertising and brand agency after his studies. Subsequently, he launched the Business Development Consultancy and it was in this role that he made contact with Charles Rolls, who'd built his reputation turning around Plymouth Gin. Their fortuitous meeting resulted in the formation of Fever-Tree in 2005.





LOW-HANGING FRUIT

Noting the recent addition of **Marks & Spencer (MKS)** to the customer roster – 'a great customer fit and profile fit' – I want to explore Fever-Tree's growth potential in the 'Off Trade' or retail market. The company already supplies **Tesco (TSCO)**, **Sainsbury's (SBRY)**, the John Lewis Partnership's Waitrose as well as **Morrisons (MRW)**. 'We've got a long way to go in the retailers that we are currently in,' insists the CEO. 'And the great thing is we're stimulating interest in this category, but also putting some much-needed margin back in it for the retailers.'

'In the "On Trade" (hotels, restaurants, bars), we started very specifically at the premium end, where we seeded the brand and established its reputation and credentials. But, as this category has grown, the bigger brewers have become very interested in the opportunity. We've worked very effectively with **Mitchells & Butlers (MAB)** – we've helped them grow their top line, their margins and their premium spirit sales and that's not being lost on the other brewers.'

I admit to being surprised by Fever-Tree's potential in the UK On Trade segment alone. 'We believe we're in about 10,000 accounts,' says Warrillow, warming to his theme. 'One of the brands we work with is Bombay Sapphire and they believe they are in about 50,000-to-55,000 accounts. Our view is everywhere Bombay Sapphire is sold, in time, we think will be suitable for Fever-Tree. So even in our most mature channel, the On Trade, in our most mature market of the UK, there's enormous scope.'

ASSET-LIGHT AND AGILE

Scrutiny of Fever-Tree's half–year results (27 Jul) reveals 62% top-line growth to £24.1 million. Premium brand positioning underpinned a high gross margin of 50.5% (2014: 51.1%) and Fever-Tree, closing the half with net cash of £7.9 million, proposed a 0.78p dividend.

'The key to the model is the outsourced nature of it,' says finance director Andy Branchflower. Manufacturing is outsourced, mainly to minority shareholder Brothers Drinks, with Fever-Tree responsible for supplying Brothers with glass, water and packaging. 'We sell to over fifty countries worldwide and what we tend to do is appoint a single importer in each of those territories and give them exclusivity,' he adds. 'Absolutely critical to the model are the partnerships, but the key thing about it is that it is flexible and scalable, which means there's no capex and it is cash generative.'

I ask if there are capacity constraints associated with Brothers Drinks? 'They've grown with us and they've got the ability to grow with us in future, but there's a lot of spare bottling capacity in the UK, in Europe and the rest of the world,' explains Branchflower. 'There are no limitations to growth from the model.'

COMPETITIVE THREATS

Next, I want to explore the risks facing Fever-Tree, starting with any competitive threat. Given the traction the brand is enjoying, has it provoked a reaction from Schweppes, I ask?

'Schweppes is owned by ten different companies around the world,' reasons Warrillow. These include **Dr Pepper Snapple (DPS:NYSE)** in America, **Suntory Beverage & Food (2587:T)** in Europe and **Coca-Cola (KO:NYSE)**. 'And it is going to be very hard for them to mount a coordinated global strategy against us. Keep in mind these are big businesses, the mixer category is small and the premium end of the mixer category at the moment is relatively speaking, very niche. So it is a long way from their current focus in the majority of these cases.'

He concedes 'the only exception to that is Suntory in Europe, which has launched a premium Schweppes to compete with us', though Fever-Tree's growth hasn't been affected as of yet, 'despite the fact they've thrown a lot of time and money at it. We've also seen small local competitors come to market, but none of them are achieving any great scale and so they are already starting to disappear again.'

I push back. What about the risks associated with raw material availability? 'Obviously, there's the quinine and the DRC is often cited as a potential risk,' concedes Branchflower, 'but we've been importing quinine for ten years without any problems. Quinine lasts for five years and we're able to hold over six months of quinine stocks here in the UK as well, which gives us flexibility.'

Warrillow has the final word: 'We're now in fifty four countries around the world and one of the reasons for that is we wanted to ensure we planted our first mover flag as audibly as we could in these markets. That is very important in the drinks industry, but also ensures that as different trends develop, you are well positioned to make the most of it. Despite the fact we are a relatively small business, we have diversified as broadly as we can in terms of geography, channel and now increasingly, in terms of our product range.'

Fever-Tree has had a phenomenal run since listing a year ago and does trade on punchy earnings multiples. Yet this is a high growth business with attractive margins that generates oodles of cash and, given the momentum behind the business, further forecast upgrades should support the valuation. Further out, this cool brand could even draw a premium-priced bid.

INVESTMENT CASE

Fevertree Drinks

543p ▲

SUMMARY

Fever-Tree's shares have frothed higher since flotation and are anything but cheap on a PE basis, but growth-hungry investors haven't missed the boat by any means. The cash-generative company boasts first mover advantage as a high-end mixer brand, is pioneering in a global mixer market in the early stages of premiumisation and has lots of low-hanging fruit to pick in the UK market alone. Potential for further forecast upgrades and an eventual bid should support the premium valuation.

BULL CASE

- First mover advantage in premium mixers
- Scalable outsourced business model
- Strong founder-led management team

BEAR CASE

- Punchy valuation
- Faces tough growth comparatives
- Exposure to FX risk

Market value:
£628million

Prospective PE Dec 15:
48.9

Prospective PE Dec 16:
43.8

Prospective dividend yield Dec 15:
0.5%

BROKER RATING: SELL HOLD BUY NOT AVAILABLE

Frontier set to rocket

Multi-year franchise could quadruple the share price, says analyst

EMILY PERRYMAN

Video games producer **Frontier Developments (FDEV:AIM)** could quadruple its share price to 900p if it succeeds in turning its space adventure game *Elite: Dangerous* into a multi-year franchise.

The £82 million cap launched *Elite: Dangerous* almost a year ago and has since sold nearly one million units. The strong demand boosted revenues by 139% to £22.8 million in the year to 31 May 2015 and they're expected to rise by a further 22% to £27.9 million in 2016.

Numis analyst David Toms says the key test for the *Elite* franchise will be second-year volumes tracking ahead of year one, demonstrating the kind of profile associated with successful multi-year franchises. If one of Frontier's titles makes it into the 10% to 20% of games that become growing multi-year franchises its share price could grow from 242.5p to 900p, Toms says.

Frontier has another chance of multi-year franchise success with the launch of *Planet Coaster* in the fourth quarter of 2016. It plans to reveal details of a third franchise once *Planet Coaster* is released.

'Frontier has a clear strategy to develop enduring franchises, and as a result will continue to invest in its titles and thus, in our view, tilt the odds substantially in its favour,' says Toms.

Frontier could also be a beneficiary of the structural shift of the video games industry towards online distribution, which potentially gives 50% to 100% of a title's retail price to its developer versus the 10% to 20% achieved with a normal publisher/retail model. Frontier's business model has been developed entirely around such new channels to market.

Toms says online distribution could drive a four-fold increase in revenue. It also eliminates revenue leakage to piracy and pre-owned games, which improves the risk/reward ratio for the launch of new titles by reducing the need for large upfront expenditure.

Frontier is forecast to make a pre-tax loss of £0.1 million in FY2016 before swinging to a profit of £12 million the following year. Numis' 12-month target price is 337p, implying 40% upside.

SHARES SAYS:

With further product launches on the horizon and a multi-year franchise strategy in place Frontier could be a very rewarding investment at 242.5p.

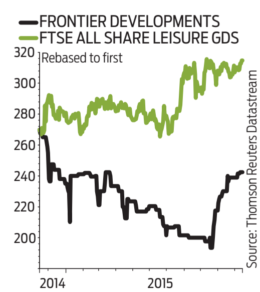
SWOT ANALYSIS

STRENGTHS
- Strong first year sales
- Iconic game association
- Flexible, proprietary in-house game development engine

WEAKNESSES
- Very competitive market
- Pre-tax loss forecast for FY2016
- Early-stage business

OPPORTUNITIES
- Develop a multi-year franchise
- Keeping growing sales volumes
- Cross-sell into stories/ novels

THREATS
- New games are unsuccessful
- Delay in releasing a new title
- Shift to app stores, eroding margins enjoyed in online distribution



Xeros changes tack on funding

'Waterless' washing machine maker in £40 million cash call

WILLIAM CAIN

IP GROUP (IPO) spin-off **Xeros (XSG:AIM)**, inventor of a patented low chemical, low water intensity washing machine, has pulled back from a pledge to self-fund the roll-out of its capital intensive machines.

Former chief executive Bill Westwater, who led the company for seven years and was interviewed by *Shares* in April, said Xeros' capital position at the time 'was currently sufficient to reach the scale we need', citing a £24 million cash balance.

Westwater was replaced by Mark Nichols in September and the new CEO announced a discounted £40 million fundraising alongside full year results published on 12 November 2015.

Since becoming CEO, Nichols says he is impressed with the business and has identified some broad short, medium and long term objectives which the fundraising will support.

Short term, Nichols indicates there will be little change to existing priorities at Xeros, continuing the focus on building sales of commercial laundry machines and servicing revenues in the US.

Commercial laundry is expected reach profitability at an earnings before interest, tax, depreciation and amortisation (EBITDA) level in 'a reasonable time frame', Nichols says, without providing further guidance.

Medium term, Xeros is looking to commercialise a leather tanning offering currently in phase two trials with a potential customer. The tanning service is an adaptation of processes already in use through the laundry operation.

Longer term, Nichols believes Xeros' intellectual property and commercial partnerships can deliver even more products, including a lightweight retail version of its 15-25kg commercial laundry machines.

SHARES SAYS: ▲▼

We like Xeros' product in principle but that's not enough to make a bullish argument for the stock. Xeros generated revenue this year of less than £500,000 yet boasts a market cap of £151 million.

WYG options compromise

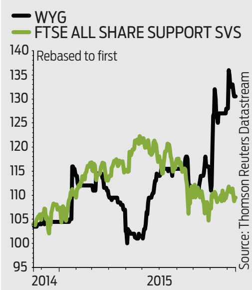
CHANGES TO AN unusual managerial options package means investors should be braced for higher volatility in the shares of frontier outsourcer **WYG (WYG:AIM)**.

Management were set to receive an award of 17.9% of the business in stock as compensation for a turnaround which led WYG back from the brink after a 2010 financial restructuring.

The awards were due to vest if WYG's share price was higher than 125p a share for more than 25 consecutive business days and would have been significantly dilutive to remaining shareholders.

At an annual general meeting (AGM) on 24 September 2015 shareholders decided the package had formed a glass ceiling on the share price and have replaced it with a less dilutive remuneration structure.

Shares in WYG gained strongly in early October when the new package was first announced but the removal of the deal will in theory introduce more volatility both up and down from here on in. (WC)



SMALL CAP BEST & WORST PERFORMERS*

TOP FIVE

1 WEEK ▲

COMPANY	EPIC	CHANGE (%)
Kimberly Enterprises	KBE	120.0
Sovereign Mines of Africa	SMA	43.4
Pressure Technologies	PRES	36.2
Kennedy Ventures	KENV	34.6
Eden Research	EDEN	32.7

1 MONTH ▲

COMPANY	EPIC	CHANGE (%)
Pantheon Resources	PANR	131.0
Kimberly Enterprises	KBE	83.3
Plethora Solutions	PLE	76.0
Wildhorse Energy	WHE	58.3
OptiBiotix	OPTI	58.0

3 MONTHS ▲

COMPANY	EPIC	CHANGE (%)
Sovereign Mines of Africa	SMA	572.0
Pantheon Resources	PANR	341.0
Mobile Streams	MOS	203.0
Pro Global Insurance	PROG	155.0
Gresham House	GHEW	122.0

BOTTOM FIVE

1 WEEK ▼

COMPANY	EPIC	CHANGE (%)
Ubisense	UBI	-41.6
Treveria	TRV	-45.5
Velox3	VLOX	-55.0
Oilex	OEX	-56.4
DX	DX.	-72.1

1 MONTH ▼

COMPANY	EPIC	CHANGE (%)
Oilex	OEX	-61.3
Lonmin	LMI	-70.9
DX	DX.	-72.5
PeerTV	PTV	-75.0
Treveria	TRV	-95.4

3 MONTHS ▼

COMPANY	EPIC	CHANGE (%)
LGO Energy	LGO	-75.4
Caza Oil & Gas	CAZA	-81.5
Motive TV	MTV	-88.8
PeerTV	PTV	-93.2
Treveria	TRV	-93.3

*Based on constituents of the FTSE All-Share and FTSE Aim All-Share, £200 million market cap or less
Data taken 16 Nov 2015. Source: ShareScope

BROKER RATING: SELL HOLD BUY NOT AVAILABLE

Inspiration profits 'to treble'

Medical technology company set for continued earnings growth

MARK DUNNE

A larger portfolio of products resulting from an acquisition in June is expected to translate into a trebling of pre-tax profits at medical device developer and supplier **Inspiration Healthcare (IHC:AIM)**.

Such growth can be bought on an undemanding valuation with the prospective 2.6p earnings per share putting the stock on 14.8 times earnings at 38.5p.

Pre-tax profit is forecast to reach £1 million in the year to 31 January 2016, up from £300,000 12 months earlier, according to analysts at WH Ireland. This is thanks to a reserve takeover by device-maker Inditherm (24 Jun) and the recurring revenues generated from product sales and related consumables.

The deal has also increased the company's scale enabling management to sell products to more international customers and win larger distribution contracts from third parties.

The downside is that despite a 233.3% rise in profit and Inspiration Healthcare avoiding a loss in all of the past 11 years, investors will have to wait for management to start handing cash back to shareholders with no dividend pencilled in for the next few years.

The £19.6 million cap has £2.1 million cash to develop its product pipeline and to win new distribution deals with third parties and supply agreements with hospitals.

Inspiration's rate of growth slows in the year to 31 January 2017 to a 10% rise in pre-tax profit to £1.1 million on higher costs in the first full year following the takeover. In the following financial year costs normalise and pre-tax profit is set to leap 45.4% to £1.6 million. These estimates see the valuation improve to 13.2 and 9.1 times earnings, respectively.

Both companies focus on critical care, providing niche life support equipment, such as warming technologies for new-born babies. Inspiration was established in 2003 by four medical technology salesmen and today sells its own-branded products or those under licence from third parties. Its sells critical care, surgical procedures and parenteral feeding devices in 50 countries, including the US and India, but the NHS accounts for half of its revenue.

SHARES SAYS: ▲▼

The lack of a dividend may deter some, but expectations of consistent profit growth on a reasonable valuation for a healthcare business should not be overlooked. Buy at 38.5p.

SWOT ANALYSIS

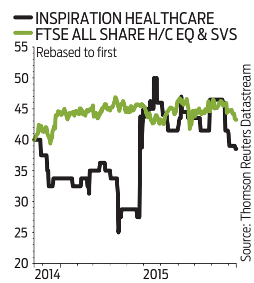
STRENGTHS
- Experienced management
- Global industry relationships
- Profit growth track record

WEAKNESSES
- Operates in niche critical care market
- Reliance on R&D pipelines
- Increasing cost base

OPPORTUNITIES
- Expanded portfolio following acquisition
- Increase in later-life pregnancies
- Technologies that reduce costs

THREATS
- Healthcare budget cuts
- Lack of R&D funding
- Not keeping up with industry advances

BROKER CONSENSUS



Earnings boost for Avation

Growing diversified fleet and increasing revenues underpin lessor's proposition

SEAN FLYNN

While investors have in the past been deterred by **Avation's (AVAP)** difficult to fathom business model, a significant step-up in the aircraft lessor's delivery pipeline should see strong revenue growth between now and March 2016.

Finance director Richard Wolanski tells *Shares* that over the course of 2015, Avation's average monthly lease revenue has been less than $5 million but that by March 2016 revenues should exceed $7.5 million for the first time.

Chairman Jeff Chatfield says: 'Avation has achieved significant progress in building and diversifying its aircraft fleet, with five aircraft announced since July 2015 – three of these aircraft purchases have been completed with the remaining two expected to close by the end of the half-year.' This will take Avation's fleet assets from a book value of $434 million in June 2015, to nearly $750 million in March 2016.

Avation, because of its origins in the regional Australian market, has historically been heavily reliant on operators in that geography. This situation was never going to persist and the Singapore-headquartered lessor now boasts a global portfolio of customers. Risk as a consequence has been significantly diversified; even over the past six months. Wolanski put this in some context: 'In June, we had six customers and now we have 11.'

The latest customers for Avation's growing and increasingly diversified fleet of aircraft are Air China subsidiary Shenzhen Airlines which will by December be flying an Avation Boeing 737-800 and Air Berlin, Germany's second biggest airline which is leasing an A320.

Three more ATR72 aircraft are scheduled to be delivered in December, January and February, respectively to UK-based regional airline **Flybe (FLYB)**. The delivery of two new Airbus A321 aircraft to Thomas Cook UK scheduled in February and March 2016 illustrate a substantial short-term pipeline.

There are caveats. The issue of the first $100 million tranche of a $500 million global medium term note programme in May 2015, which has been earmarked to support ambitious growth plans, has increased interest costs. Wolankski counsels that as a consequence, February's half-year profit is likely to be flat year-on-year. The full benefits of Avation's ambitious upscaling should be better reflected in full year 2017 figures. Based on June 2017 consensus forecast earnings pre share and at the current share price of 128p the stock is on a price to earnings ratio of just 4.6 times.

SHARES SAYS: ▲▼

In a global market of rising air travel, lessors like Avation are funding and delivering almost every second aircraft being delivered to airlines.

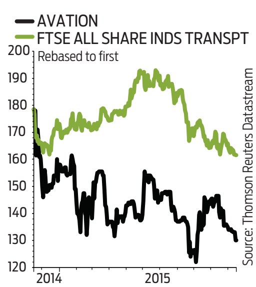
SWOT ANALYSIS

STRENGTHS
- Growing fleet
- Experienced management
- Good relationships with global fleet managers

WEAKNESSES
- Vulnerable to negative newsflow
- Balance sheet carries a lot of debt
- Danger of customer airlines going bust

OPPORTUNITIES
- Still a rising trend for global air travel
- Strong growth expected in aircraft leasing
- The move into larger aircraft is progressing well

THREATS
- Lessors vulnerable in macro decline
- Geopolitical uncertainty's disruptive potential
- Tightening credit conditions



Running the rule over Gateley

Momentum is picking up with UK's first quoted law firm

DANIEL COATSWORTH

The UK's first law firm to float on the stock market has outperformed the FTSE All-Share index since joining AIM in June 2015, but are investors being blindsided by the lure of a 6%-plus dividend yield and ignoring big risks with **Gateley (GTLY:AIM)**?

The £110 million cap has limited earnings visibility. It is rarely allowed to talk about specific projects, so shareholders lack information on work being done. A large proportion of staff also receive a high salary, so costs are an issue.

It operates in an ultra-competitive industry where legal services are over-supplied. That raises the risk of Gateley fighting for business on price, potentially putting a question mark over its ability to keep improving net profit margins. These are clear reasons why the shares deserve to trade on a relatively low rating.

While Gateley has a good track record of consistent profit growth, investors need to be compensated for the high risks. That is why a high dividend yield is a necessity, not a luxury, for anyone willing to put the law firm in their investment portfolio.

GOOD START

The shares are up 10% to 104.5p since its IPO (initial public offering) versus a 9.2% decline in the FTSE All-Share over the same period.

Gateley's shares are very illiquid at present due to 70% of the business being owned by its senior staff (the people who used to be partners under the former ownership structure). Asset managers Schroders and Miton own a further 13.6% combined, leaving just 16.4% of the company's shares in public hands.

Nick Smith, who heads up the firm's corporate team in London, says he expects more shares to gradually be fed into the market as the former partners' lock-up periods expire. The 100 members of staff owning 70% of the business cannot sell any of their shares until June 2016 at the earliest. They are then subject to a tiered level of lock-ins over a four-year period, so as to prevent them dumping all their shares in one go.

CULTURAL CHANGE

One of the biggest concerns voiced by fund managers during the IPO roadshow was over Gateley's ability to transition from a partnership to plc status. 'Gateley is an entrepreneurial law firm and it is not a big step to corporate culture,' says Smith. 'We always had an executive management function and pre IPO we took some bold steps in the business with acquisitions, largely at the direction of that executive board.'

Traditional law firms tend to involve partners doing everything they can to generate business. Under the plc model they will have to adhere to good corporate practice, not take undue risks and make sure they are generating value for shareholders.

'Under the old model, the balance sheet went to zero each year as you distributed everything you earned to the partners. This was always was a huge frustration to me and others in the business. You aren't utilising the value that you have created in the business for next year,' says Smith.

Gateley's new model as a plc is to pay out up to 70% of earnings in dividends and have money left over to accumulate reserves. Staff will now get a salary each year, plus the chance to earn bonuses. As shareholders they will also get dividends and benefit in the upside of any increase in the value of the shares.

The firm hopes this value generation opportunity will appeal to many lawyers in the country, either opening the gates to making acquisitions or attracting new talent. Indeed, Smith says Gateley is now having more senior hiring conversations that ever in the past.

'The traditional model in the legal industry is to treat your most prized and valuable asset

SHARES EXPLAINS

What does this company do?

SHARES EXPLAINS

GATELEY – REVISED PRO FORMA NUMBERS (£M)

Adjustments applied to historical numbers	PF FY14	PF FY15E	FY16E	FY17E
Profit before merit bonus, tax & dividends	20.0	23.4	13.0	14.7
Pro forma partners pay + NIC	-11.3	-11.5	0.0	0.0
	8.7	11.9	13.0	14.7
Merit bonus	-1.3	-1.8	-2.0	-2.2
Revised pre-tax profit	7.4	10.1	11.0	12.5
Corporation tax rate	23.0%	21.0%	20.0%	20.0%
Corporation tax	-1.7	-2.1	-2.2	-2.5
Revised profit before dividends	5.7	8.0	8.8	10.0
Dividends at 70%	-4.0	-5.6	-6.7	-7.0
Revised retained profit	1.7	2.4	2.1	3.0
Revised EBITDA	10.1	13.1	14.5	15.4
Revised Adj EBITDA after merit bonus	8.8	11.3	12.5	13.2
Revised Adj EBIT after merit bonus	7.8	10.5	11.8	12.5
Adj profit after tax (excludes one-off items)	6.1	8.5	9.5	10.0

Source: Cantor, Gateley

as a unit of production. I'm not going to call it a battery hen because that would be unfair; but in some businesses they might feel like that. (Under Gateley's position as a plc) they become stakeholders in the business.'

The staff payment changes are important when you look at historical earnings figures. Before Gateley became a plc its partners got a below-the-line allocation of profit. Their remuneration will now appear as a personnel cost. The new plc will also pay corporation tax instead of paying the individual tax liabilities of the partners, and it will pay dividends. These factors imply you will see a big drop in reported profit from the company, but that is not caused by a sudden drop in business.

The accompanying table shows pro forma IFRS (modern accounting standard) numbers incorporating theoretical figures for bonuses, tax and dividends so as to give a degree of comparison between the actual historic figures as a partnership and its new structure as a plc.

You can see how the profit before merit bonus, tax and dividends falls from £23.4 million in 2015 to £13 million in 2016, which may worry a casual observer. Yet if you scroll to the adjusted profit after tax figure, you will see that underlying profit is expected to keep rising.

CHARGING MODEL

The company bills clients on a per hour basis where the contract reflects variable charging. There are also fixed price contracts for certain pieces of work.

Some work within the corporate recovery business can take up to two years to complete, says Gateley's house broker Cantor Fitzgerald. 'If an element of the fees are also contingent on success, there can be varying periods of time when costs are incurred but no income is generated, however when such work does complete the success fee uplift can be significant.'

One of the most important focal points is 'work in progress' (WIP) which represents as-yet unbilled amounts for client work. Conversion of WIP to billings was 82% in 2014, which Smith claims to be a high figure for the legal industry.

Gateley will only raise an invoice once the bill has been agreed with the client. Sometimes the amount of work it has done is in excess of the amount which it is able to invoice. 'Where this happens we will absorb all WIP on the file against an invoice for that lesser invoice value,' says Smith. 'We make this assessment of recoverability based on a combination of factors, including engagement terms in place and client relationship management.'

Any WIP remaining at the end of the financial year is recognised on the balance sheet. It doesn't put a value on unbilled work that is contingent on a certain critical event, if the latter hasn't happened yet.

CLIENT INSIGHT

Smith says he would like to talk more about clients but cannot due to confidentiality agreements. All he reveals is that housebuilders are a key sector, so too banking, media and leisure.

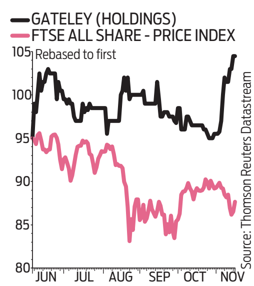
'We say to each of our offices: build your offering to meet the local opportunity,' says Smith. 'It about them knowing the bankers writing the loans, knowing the corporate financiers striking the deals, knowing the developers who are investing in property or building projects. But we also take advantage of, and seek to leverage, a national brand and national infrastructure.'

SHARES SAYS: ▲▼

The stock clearly has appeal to income seekers and we do believe there will be greater share price upside as more people get to know the story. But there also remain big risks from lack of earnings visibility and the big share overhang from staff ownership, so investors need to set their expectations correctly.

Cantor values the business on peer group comparison, company-specific book value and dividend models, to imply Gateley should trade on 13.5 times earnings. Based on a forecast 9p earnings per share for the financial year to April 2016, it set a 12-month target price of 122p in July 2015.

Given we are more than halfway through the financial year and that period includes some months under the old partnership structure and only an interim dividend, it seems prudent to focus on the financial year ending April 2017 which will be the first full year as a plc. Earnings per share is forecast to be 9.5p; so Cantor's price target would be 128p using a 13.5 times ratio versus the current share price of 104.5p. The dividend is forecast to be 6.7p, implying a 6.4% yield. Add in the 22.5% share price potential upside and investors will be looking for a near-30% total return in just under a year and a half. That looks enticing, even with the risks.



Orbis has value appeal

Low fees and a value approach are attractive features

WILLIAM CAIN

Dan Brocklebank
Equity Analyst

Orbis Global Equity:
GB00BH6XLH54

Net asset value:
$170.5 (as at 5 Nov)

Portfolio size:
$7.4 billion

FUND FACTS

Type:
Open-Ended Investment Company (OEIC)

Launched:
1989

No. of holdings:
124

Active share:
91%

Benchmark:
Average Global Equity Fund Index

Value investing can be an unrewarding pursuit at times but fund managers at Orbis are sticking to their guns despite markets currently driven by momentum rather than fundamental factors.

This may be part of the reason Orbis boasts a number one peer ranking in the long-term and therefore arguably most important investment time frames, even though more recent performance has lagged.

CONTRARIAN APPROACH

Equity analyst Dan Brocklebank often manages to surprise us with deeply contrarian additions to Orbis's equity portfolios and today is no different.

The Chartered Financial Analyst is enthusing about **JD.com (JD.:NDQ)** – not the retailer familiar to many British high streets but a China-based e-commerce outfit listed on the United States' NASDAQ exchange.

It's not long since markets were writhing in panic over China's slowing economy. While some investors ran for the exits, Orbis was patiently buying up stock.

'In a nutshell, when everyone panicked about China's growth numbers we bought JD.com at a valuation which we believe is very attractive,' says Brocklebank.

'Profits are quite low – but remember **Amazon (AZN:NDQ)** never really reports serious profits either. JD.com is investing heavily in marketing which is building up a large base of consumers.

'When you have the kind of scale JD.com possesses, you get some of the most cost efficient marketing spend in the industry with a more loyal customer base.

'It's going down the same route as Amazon with a really excellent customer interface.'

Brocklebank stops short of calling JD.com 'the Amazon of China', saying it has more similarities with the online market place run by **Ebay (EBAY:NDQ)**.

'Ebay was far larger than Amazon for a long time and we think JD.com can do better than eBay was able to do around customer service,'

TOP 10 HOLDINGS (AS AT 30 SEP)

	Company	Sector
1	NetEase (NTES:NDQ)	Technology
2	Motorola Solutions (MSI:NYSE)	Technology
3	QUALCOMM (QCOM:NDQ)	Technology
4	Charter Communications (CHTR:NDQ)	Consumer Services
5	Samsung Electronics (005930:KRX)	Technology
6	Apache (APA:NYSE)	Oil & Gas
7	Time Warner Cable (TWC:NYSE)	Consumer Services
8	PayPal (PYPL:NDQ)	Industrials
9	Liberty Global (LBTYK:NDQ)	Consumer Services
10	Sberbank (SBER:MCX)	Financials

Brocklebank adds.

One of the key weapons for value investors looking to deliver superior performance is to consider a problem from a different angle to the rest of the market. In the case of companies like loss-making JD.com, marketing spend is expensed on a company's income statement, so reduces a profit.

At the same time, when effectively executed, it dramatically increases a company's longer term earning power.

INVEST LIKE THE BEST

Think of the hundreds of billions spent by **Coca-Cola (KO.NYSE)** over the years. Without these expenditures, Coke would have enjoyed much higher short-term profitability in its early days as a public company. But it would be just another Panda Cola today.

This, along with buying opportunities provided by fearful markets, is the kind of opportunity value managers like those at Orbis look to pounce upon.

Still, there is an extra layer of risk in JD.com. China-domiciled stocks – generally smaller ones – have performed terribly on international exchanges around the world. JD.com is larger than many of its compatriots which eventually ran into trouble and Brocklebank believes the risks are mitigated in a number of ways.

'One protection with JD.com is that – unlike information or culture–related businesses such as online gaming and internet search – foreign ownership is not prohibited in China,' says Brocklebank. 'Hence the need for elaborate business structures is lower.'

A dual class share structure is not ideal, Brocklebank concedes, but founder Richard Liu has the vast majority of his own wealth tied to the stock, which may mitigate some of the risk.

'There are always risks with any stock, which is why we have a portfolio to diversify,' Brocklebank adds.

Sometimes, contrarian calls can go wrong. Orbis called a recovery on Russian stocks too early, snapping up stakes in national champions **Sberbank (SBER:MCX)** and **Gazprom (GAZP:MCX)** in July 2014 as territorial tensions between Russia and Ukraine surfaced.

Brocklebank says the team at Orbis is always looking at the possibility that apparently cheap stocks could represent poor investments if earnings fall away markedly. This helped the fund largely steer clear of commodity investment even as businesses like **BHP Billiton (BLT)** and **Rio Tinto (RIO)** traded on big dividend yields and low price-to-earnings (PE) ratios before falling even further.

METRICS MISLEAD

'You have to be really careful using mechanistic processes like PE ratios or price-to-book multiples,' says Brocklebank.

'You need to ask if the earnings are sustainable. Suddenly, when people realise they are not, the price collapses. You can end up with a stock you thought looked cheap that has actually become a lot more expensive when the earnings fall away.'

Part of the investment process at Orbis is to ask two fundamental questions of any prospective investment:

If you were to own the whole business and it was the only investment you could ever make in your life, what would you be willing to pay for it?

How does the business make money and to what extent is in control of its own destiny?

On point one, Brocklebank argues that if investors don't consider an investment to be a long-term decision they are playing a game of 'pass-the-parcel', hoping that someone else will buy it at a higher price. This doesn't hold much sway in the Orbis process.

Point two is part of the reason Orbis has a cautious stance towards commodities stocks.

'If you're in the business of digging dirt out of the ground then trying to find someone to buy it, you have to ask if that is a good a business to be in,' says Brocklebank.

'When you fly over Australia, the entire country is red because it's full of iron ore. No miner can control the supply that comes onto the market and they have little or no pricing power. It's really hard to know where commodity prices will be in the future.'

As well as pursuing a value approach to investing, Orbis also aims to provide market-beating value to its investors through a 'no performance, no fee' style fee offering.

PERFORMANCE-RELATED PAY

The fund only charges fees to investors if it beats its benchmark, when the charge rises to 50% of any return above that of the MSCI World Index. There is also a form of refund structure when the fund underperforms.

CUMULATIVE ANNUALISED PERFORMANCE (AFTER FEES)	
1 year	-4.2%
3 years	+13.2%
5 years	+11.3%

Source: Orbis

Guide to regular investing

We explain the best way to invest small amounts each month in a cost-efficient manner

EMILY PERRYMAN

In our weekly Money Matters section we explore the tools and tricks of the trade to help you make the most of your investments. Whether you're new to investing and don't know where to start or have a gripe about a particular product or service, please email us at **editorial@sharesmagazine.co.uk** and we'll investigate.

Regular investing is a great way of building up a pot of money over time, but the dealing fees charged can make the process extremely inefficient. We've spoken to the major platforms to find out the most cost-effective ways of growing your money month by month.

THE BENEFITS OF REGULAR INVESTING

Most platforms offer a regular investment service which lets you pay in a small amount of money each month. It aims to make investing more accessible to people who haven't got a large lump sum to invest.

If you do pay in a lump sum there's always the worry that there could be a large fall in share prices just around the corner. By drip feeding money you stagger your investments so if the stock market does fall you'll only have invested some of your savings and your next payment will benefit from the cheaper share prices available. Over time you could average out the cost of your holding.

MINIMUM INVESTMENT

Each platform sets a minimum amount which you must deposit each month in order to use their regular investment service. The lowest is The Share Centre which requires a minimum investment of £10. It's important to note this is per asset – it's £10 for every stock, fund, investment trust and exchange-traded fund (ETF) in which you choose to regularly invest.

Most platforms set a minimum per asset but there are others – including Bestinvest and Fidelity – which set a minimum overall monthly investment, namely £50. In theory you could pay in £50 each month and spread it across five stocks or funds. Halifax Share Dealing has an overall investment minimum of £20 and you have to put a minimum of £5 into each stock.

ASSETS

The majority of platforms let you pick FTSE 350 stocks, funds, investment trusts and ETFs in their regular investment service, but Bestinvest and Barclays Stockbrokers limit theirs to funds only.

Jason Hollands, managing director of Bestinvest, says this is down to a combination of demand and costs. 'Administering these types of plans on a client by client basis is more costly since there would need to be a dealing fee to cover the transaction charges of making purchases through the stock exchange,' he explains.

COSTS

The charges levied by platforms vary considerably. It's important not to get

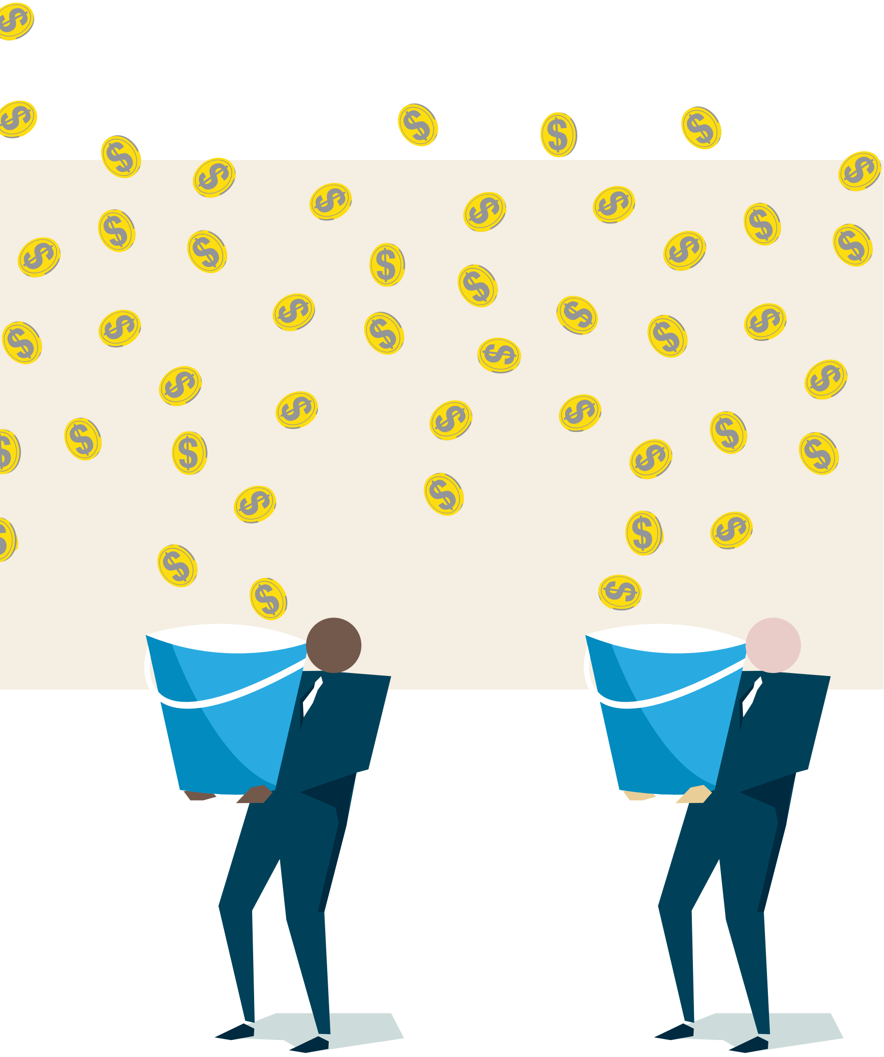
blindsided by the low – or in some cases zero – headline dealing fees but to also compare the platform and fund custody fees.

Fidelity doesn't charge dealing fees on any of the assets included in its regular investment service. This means you can invest into funds, stocks, ETFs and investment trusts every month and the only fee you pay is the account fee, which is 0.35%.

'Fidelity Personal Investing customers pay just one fee. We offer this pricing structure as we are committed to being transparent and we believe this pricing model is simple and easy for our customers to understand,' a spokesperson says.

There are no dealing fees on funds at Bestinvest, Barclays Stockbrokers, TD Direct and Hargreaves Lansdown, but it's important to note that Hargreaves Lansdown charges a fund custody fee on top of its platform fee. TD Direct and Hargreaves Lansdown both charge £1.50 for dealing stocks, investment trusts and ETFs.

AJ Bell Youinvest and Interactive Investor charge a £1.50 dealing fee across all assets, including funds, while The Share Centre charges 0.5% with a minimum of £1.



The platforms say these dealing fees are necessary because of the administrative costs involved.

'Every time a deal is placed there is an administration cost and of course to provide the facilities for online dealing, live prices, charting tools, factsheets and research and experts at the other end of the phone, if needed, also has costs,' says Danny Cox, head of communications at Hargreaves Lansdown.

THE MATHS

A dealing fee of £1.50 looks cheap compared with platforms' usual lump sum investment fees – Hargreaves Lansdown, for example, usually charges £11.95 for trading stocks and ETFs – but the costs soon mount up. If you invested in five stocks and held onto them for a year you'd normally pay £59.75 in dealing fees at Hargreaves Lansdown. If you used the regular investment service for those five stocks you'd pay £90 in dealing fees over the course of the year.

The cost of regular investing means that if you take advantage of the low minimum monthly investment amount, say £25, you'd effectively pay a 3% charge on dealing fees alone. You might also have to pay a platform fee and a fund custody charge.

The Share Centre has a warning on its website: 'Please be aware that for smaller amounts the charges involved can make regular investing inefficient.'

Charlie Musson, spokesperson at AJ Bell Youinvest, says the average regular investment via AJ Bell Youinvest is around £500 so the regular dealing charge of £1.50 represents good value. He also points out that AJ Bell Youinvest doesn't have a platform/custody fee for shares, ETFs or investment trusts – if you invest in these assets the only fee you pay is the £1.50 dealing charge.

'Given the above, our regular investment service is a cost-effective way to invest smaller amounts of money over time,' he states.

Rebecca O'Keefe, head of investment at Interactive Investor, suggests that if people are investing smaller amounts they could consider making asset purchases less frequently, for example quarterly.

'That way the relative cost is lower. However, you do need to bear in mind that the "average price" effect is reduced the less frequently you make your purchases. Additionally, make sure you're not spreading your monthly investment

POUND COST AVERAGING IN ACTION

MONTH	SHARE PRICE		REGULAR INVESTMENT	SHARES PURCHASED	ONE OFF INVESTMENT	SHARES PURCHASED
1	£5.00		£100	20	£500	100
2	£4.50		£100	22		
3	£3.50		£100	29		
4	£4.00		£100	25		
5	£5.00		£100	20		
Average	£4.40	Total	£500	116	£500	100
			Value of shares at month 5	£580	Values of shares at month 5	£500

Source: TD Direct

PLATFORM	ASSETS INCLUDED IN SERVICE	DEALING FEE	MINIMUM MONTHLY INVESTMENT	ACCOUNT/PLATFORM FEE
AJ Bell Youinvest	Funds, stocks, ETFs, investment trusts	£1.50	£25 per asset	0.2% fund custody charge; no charge for shares, ETFs or investment trusts
Alliance Trust Savings	Funds, stocks, ETFs, investment trusts	£1.50	£50 overall investment	£18.75 + VAT per quarter
Barclays Stockbrockers	Funds only	None	£50 per fund	0.35% fund administration fee
Bestinvest	Funds only	None	£50 overall investment	0.4% (tiered)
Fidelity	Funds, stocks, ETFs, investment trusts	None	£50 overall investment	0.35% (tiered)*
Halifax Share Dealing	Funds, stocks, ETFs, investment trusts	£2	£20 overall (£5 per stock)	£12.50 per year
Hargreaves Lansdown	Funds, stocks, ETFs, investment trusts	£1.50 for stocks, investment trusts and ETFs; no charge for funds	£25 per asset	0.45% for shares, ETFs and investment trusts (capped at £45 per annum); 0.45% fund charge (tiered)
Interactive Investor	Funds, stocks, ETFs, investment trusts	£1.50	£20 per asset	£20 per quarter (covers the value of £20 of trades)
Lloyds Share Dealing	Funds, stocks, ETFs, investment trusts	£2	£20 overall (£5 per stock)	0.3% per six months (min £15, max £72)
The Share Centre	Funds, stocks, ETFs, investment trusts	0.5% (min £1)	£10 per asset	£4.80 per month
TD Direct	Funds, stocks, ETFs, investment trusts	£1.50 for stocks, investment trusts and ETFs; no charge for funds	£25 for stock and ETFs; £50 for funds	0.3% fund custody charge; no charge for stocks, investment trusts and ETFs

Source: Shares
*After 1 December 2015 customers with less that £7,500 in assets will pay a flat fee of £45 a year

amount too thinly,' she says.

Alliance Trust Savings has a feature that lets customers set a minimum purchase level. You can pay in £50 per month, let the cash accumulate, and once it reaches a set level – for example £500 – the platform will automatically buy your shares for you. By letting your money build up the percentage cost of the trade reduces and, as fewer trades are made, the overall cost falls too.

FUNDS

Most platform providers say funds tend to suit regular savers better than individual shares. This is partly down to the fact that many don't charge dealing fees for funds but also because you can get greater diversification.

'Opting for a fund will be cheaper from a transaction perspective, however funds have annual management charges to be mindful of,' says Cox. 'Generally speaking funds suit regular savers better than individual shares, simply because a fund is more diverse than a single stock.'

Some platforms have ready-made portfolios which you can invest in via their regular investment scheme. Bestinvest's ready-made portfolios are funds of funds and each one contains around 20 underlying funds. They provide diversification across geographic regions, managers and also across equities, bonds, property and absolute return asset classes.

ETFS AND INVESTMENT TRUSTS

Richard Stone, chief executive of The Share Centre, believes ETFs are more suitable for regular investing than traditional funds because they have lower charging structures.

'For those with more modest savings pots, the risk associated with trying to pick the next share to see its price rise significantly, or the higher costs associated with active fund management may not be the best approach. Instead, investors would likely benefit from a more general market exposure which can be obtained through passive (tracker) funds which follow a particular index, for example the FTSE 100. These passive funds, which can also be purchased in the form of ETFs, typically have much lower charging structures,' he explains.

Some investment trusts, such as F&C Investments and Witan, run their own in-house regular savings schemes which tend to have low or no dealing costs. 'The downside is that many of these plans will have a fixed account fee, circa £30 to £60 (plus VAT) per annum, which can be prohibitively high for small investors compared to a percentage based fee,' says Bestinvest's Hollands.

REGULAR INVESTING CHECKLIST

1. Many share dealing and fund platform providers offer a reduced dealing fee if you set up a direct debit and invest every month. You will need to sign up to a specific service where the investment tends to be made on the same day every month.

2. The reduced fees vary from provider to provider, and are also determined by whether you are investing in individual company shares, ETFs, investment trusts or funds.

3. Some platforms require a minimum amount to be invested each month; and even then you could be subject to different rules as to whether the minimum amount must go into a single stock or fund, or whether it can be spread about.

4. Don't be tempted to pick a platform provider solely on its regular investing fee structure. You also need to consider any annual, quarterly or monthly management fees imposed by the platform for holding your investments.

The private equity edge

'Good' private equity delivers returns and better businesses

WILLIAM CAIN

Love it or hate it, private equity has an important place in modern economies.

While equity markets play a role in allocating capital effectively, private equity companies are at the cutting edge.

Whether buying up struggling businesses to turn them around or helping a growing business take its next step, it is an industry which can make a big difference.

There are occasions when the industry goes too far in its quest for returns concedes Julia Wilson, finance director of the UK's largest listed private equity investment trust **3i (III)**.

GOOD PRIVATE EQUITY

'Private equity gets some bad press but I think good private equity – and of course I would say 3i is part of that – take good businesses and try to make them even better,' says Wilson.

One example of 3i's approach is the purchase of injection moulding specialist Mold-Masters in 2007. Previously under family ownership, 3i's investment in the business helped Mold-Masters expand across the Asia-Pacific region and cement its position as a global leader in its key market niche.

This investment, as well as the introduction of star management provided through 3i's Business Leaders Network programme, helped Mold-Masters grow revenue at a compound rate of 17% in the three years prior to sale in 2012.

Employee numbers across the group increased from 900 in 2007 to 1,700 in 2012.

'We have investment expertise across industries and through our Business Leaders Programme we have access to experienced people who make important contributions to the growth of the businesses we invest in,' Wilson says.

Improving businesses often means generating attractive returns, as becomes evident when looking at the long-term track records of some of the best-performing private equity investment trusts.

Under chief executive Simon Borrows, appointed in May 2012, 3i is now one of the top-performing private equity investment trusts after generating annualised returns of 19.4% on a net asset value (NAV) basis over the last five years.

That's still not good enough to make it into the list of top-performing funds over the last 10 years but there is evidence the investment house is now starting to find its form.

Since listing in 1994, 3i's performance is roughly equal to the FTSE All-Share on a total return basis.

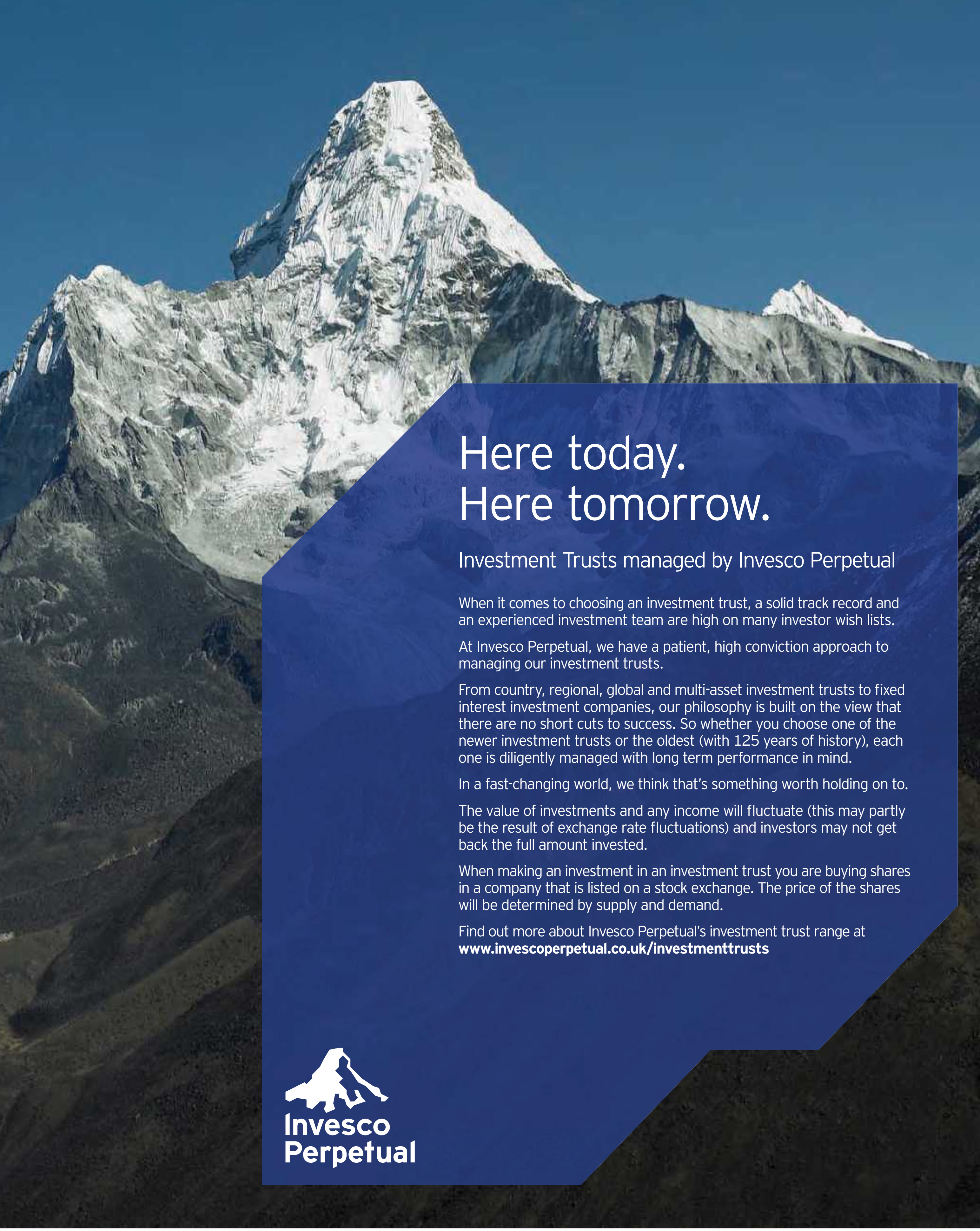
Bulls argue a cost-cutting drive led by finance officer Wilson and a more disciplined approach to investments could see performance improve in the years to come.

Trading at 480p and a 17.3% premium to book value, the trust may look a little pricey though it's worth noting that 3i values its own portfolio at lower earnings multiples than the average of the FTSE 100.

That's despite year-on-year earnings growth in its private equity portfolio of 19% in the six months to 30 September 2015, performance that has proved beyond the grasp of most listed companies in the same period.

European discount retailer Action is the largest position in 3i's portfolio at 18.5% of assets.

Performance at fellow private equity trust **Electra Private Equity (ELTA)**, owner of TGI Fridays, has lagged 3i in the last five years. Over longer time frames it has been a more consistent performer.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A £100 investment in Electra back in at the start of 1986, the start of the data we have for the FTSE All–Share, is now worth in excess of £3,000, according to Thomson Reuters. That equates to around 13% annualised, showing the benefits of long periods of compounded returns.

Interestingly, this included a period between 1999 and 2006 when Electra was not even making investments. Instead, the fund disposed of a number of the assets it had acquired and returned money to shareholders through a series of special dividends and share buybacks.

TOP PERFORMER

Since Electra started making new investments, it has become the best performing UK–listed private equity trust over 10 years on a net asset value basis.

Given these returns, a long–running and ultimately successful activist campaign led by Edward Bramson to shake up the fund's operations looks surprising to say the least. Bramson's New York–based private equity fund Sherborne Investors argues Electra's strategy has changed in recent years and returns are now being delivered through leverage rather than operational improvement.

Bramson said he took no comfort in Electra's outperformance of Morningstar's index of private equity trusts because 'the index's long–term returns have been dreadful'.

This is an important point for investors to consider – while some private equity trusts have fared very well, it is important to be selective because performance across all trusts, on average, has been poor.

At £36.25 Electra trades at a 6% discount to net asset value after a rally on the back of Bramson's campaign which was confirmed at a General Meeting on 5 November.

Second–best over 10 years, according to Morningstar data, shrinking **Northern Investors (NRI)** is engaging in a similar wind–down process to that pursued by Electra in the 2000s.

So far, the fund has returned £60.6 million to investors since kicking off the asset sales in 2011 and it aims to have completed the programme by 2017.

HgCapital Trust (HGT), is another top performer over 10 years, thanks partly to supreme timing around the 2008 financial crisis.

'Our manager, HgCapital, has rigorously pursued a policy of realising investments before markets turned,' wrote chairman Roger Mountford in the trust's 2008 annual report.

This led the fund to take a net cash balance at 55% of equity into the recession, helping it outperform peers and providing the liquidity to invest in distressed assets at the height of the crisis.

Mountford still leads the board at HgCapital though there's no evidence the fund is adopting a similar divestment strategy at present.

The trust's portfolio is now dominated by technology, media and telco (TMT) companies, with its largest position at 11% of assets IRIS, an accountancy and payroll software service provider.

FURTHER INVESTIGATION

Also worth investigating further is **Better Capital (BCAP)**, headed by colourful financier Jon Moulton. The largest position in the fund's better performing 2009 cell is Gardner, an aerospace and defence parts supplier.

USING AN ISA FOR RETIREMENT

PENSIONS AREN'T THE ONLY PLACE TO BUILD UP WEALTH FOR LATER LIFE

NICK SUDBURY

Hardly a year goes by without some significant change to the pensions legislation. The one area that the Government hasn't touched is the upfront tax relief on the contributions, but there is widespread speculation that this could be reduced to a flat rate or removed altogether with the details due to be announced in next year's Budget.

In view of the high degree of uncertainty you might want to put some of your retirement savings into an ISA. These are the most flexible form of tax shelter and have not been subjected to anywhere near the same level of upheaval as they are less expensive for the / Government in terms of the lost tax revenue.

Stocks & Shares ISAs operate like a normal broking account other than the fact that the income and capital gains are all tax-free. You can use them to buy and sell a wide range of permitted investments including UK and overseas shares, funds and bonds, although some providers offer a more limited choice than others.

ACCUMULATION STAGE

For the tax year ending on 5 April 2016 you can pay in a maximum of £15,240 into a Stocks & Shares ISA. This can either go into an existing account from an earlier tax year or a new one with a different provider.

Rebecca O'Keeffe, head of investment at Interactive Investor, says that £15,000 invested every year and generating a net growth rate of 5% would be worth £198,102 after 10 years, £520,789 after 20 years and £1,046,412 after 30 years.

'These numbers are all highly attractive and show that you could build up a considerable ISA fund which could provide a very attractive retirement income, free from further income tax.'

There is no upfront tax relief on the contributions as there is with a pension, but once the money has been invested the savings within the account are the same. One of the main benefits is that all the profit is free of capital gains tax (CGT), otherwise amounts in excess of your annual allowance of £11,100 would be taxed at either 18% or 28%.

Even if you don't expect to go over this limit in the current tax year it is still worth sheltering your assets, especially if you contribute to an ISA on a regular basis, as there is every chance that you could build up a substantial portfolio.

REDUCE TAX ON INCOME

Higher and additional rate taxpayers who use their ISA to invest in individual company

shares or equity funds will not have to pay any further tax on the dividends. This is especially valuable for those who receive dividend income in excess of the new tax-free dividend allowance of £5,000, as the effective tax rate is due to increase when it comes into force on 6 April 2016.

Charles Galbraith, managing director of AJ Bell Youinvest, says that once the £5,000 allowance is exhausted the tax due on dividend payments will be higher than before if you are a higher or additional rate taxpayer.

'Investors should look to make the most of their allowances when it comes to their dealing and savings accounts and then use an ISA to manage tax liabilities on the next portion of their portfolio.'

The other main benefit is that interest on bonds and bond funds held in an ISA is free of income tax, which represents a big saving for both basic and higher rate taxpayers. From 6 April 2016 the first £1,000 of this income for a basic rate taxpayer will be covered by the new personal savings allowance, although most people will probably use it to cover the interest on their deposit accounts. For higher rate taxpayers the allowance will be just £500.

'The beauty of holding assets in an ISA is that investors don't have to worry about tax and utilising allowances as their investment builds up tax-free and can be withdrawn whenever they need it with no tax liability,' notes Galbraith.

EARLY RETIREMENT

You are not normally allowed to take money out of a personal pension until you are 55 and workplace pension benefits may not be accessible until you are 60 or older. Once you get to that stage you can usually withdraw up to 25% of the accumulated capital as a tax-free lump sum with the remainder taxed as income as and when you draw it.

There are no such restrictions with ISAs as the money can be withdrawn tax-free whenever you want regardless of how old you are. The one point to bear in mind is that at present with a Stocks & Shares ISA if you want to put cash back later it will count towards your annual ISA allowance. This rule will change in April 2016 to have complete freedom with moving cash in and out and back in again, without the latter affecting the annual investment limits.

Those who save enough money can use an ISA to retire early as they can draw a tax-free income or take out the capital before they can access the cash built up in their pension.

'Most people start to draw at least one of their pensions when they retire, although retirement is usually phased in with part-time work rather than a cliff edge process.

'Some live off the capital in their ISAs before their full pensions kick in, although most people like to spend income not capital,' says Cox.

A retiree with sufficient savings could limit their pension withdrawals to their personal allowance so that there would be no tax to pay on the income. They could then take out whatever else they need tax-free from their ISA. This would enable them to enjoy a potentially sizeable tax-free income in retirement, especially if they also make use of the new personal savings allowance and tax-free dividend allowance.

Someone aiming to achieve a £30,000 annual retirement income could rely on the State Pension to provide about £7,000. If they saved £200,000 in an ISA and generated a 5% yield this would provide a further income of £10,000 and they would then need an additional £225,000 in a pension to deliver the remaining £13,000, although this would be at a flat rate and its value would diminish over time due to inflation.

'The ideal combination of retirement savings incorporates the State Pension, other pension savings and ISA income, which allows you to avail yourself of your full personal allowance and minimise your taxable income,' explains O'Keeffe.

INHERITANCE CHARGE

Until recently all the tax benefits of an ISA were lost when you die, but where account holders pass away on or after 3 December 2014 their surviving spouse or civil partner will inherit their ISA benefits. This takes the form of an additional ISA allowance equal to the value of the accounts on death.

'The new rules that allow an ISA to be effectively passed on to a surviving spouse or civil partner have made ISAs even more valuable, but in a straight comparison of pensions and ISAs the most beneficial way to save for your retirement remains a pension,' says O'Keeffe.

As long as pensions continue to offer upfront tax relief they will remain the most attractive way of saving for retirement, but ISAs provide a useful complimentary tax shelter and they will become even more valuable if the Government scales back the pension benefits in the 2016 Budget.

UK STOCK MARKET AWARDS 2016

VOTING IS NOW OPEN for the sixth annual UK Stock Market Awards, an event that celebrates the best of UK PLC. It is an opportunity for retail investors to have their say on which companies have performed the best over the past year. We want to hear your views on businesses that have been run in the interests of shareholders and ultimately delivered the best value.

You should consider the decisions made by management, how the business has engaged with investors and how the company has coped with any market challenges. You may also wish to look at dividends and share price performance.

Once your views have been collated and aggregated to provide a list of five nominees for each category, a vastly experienced panel of equity market participants and commentators will meet in March to assess the merits of every contender and select the recipients of the coveted trophies. The panel will be chaired by *Shares*' editor Daniel Coatsworth.

The 2016 Awards ceremony will take place at the **Sheraton Park Lane Hotel** in London's Piccadilly on **14 April 2016.** The event will be covered extensively in a special supplement to be published in *Shares*.

Award Categories

- Best Oil & Gas PLC
- Best Chemicals PLC
- Best Basic Resources PLC
- Best Construction & Materials PLC
- Best Industrial Goods & Automobiles PLC
- Best Food & Beverage PLC
- Best Personal & Household Goods PLC
- Best Health Care PLC
- Best Retail PLC
- Best Media PLC
- Best Travel & Leisure PLC
- Best Telecommunications PLC
- Best Utilities PLC
- Best Real Estate PLC
- Best Financial Services PLC
- Best Technology PLC
- Best Investor Relations Communications
- Best Adviser – Corporate Sponsor
- Best Adviser – Financial PR
- Best Impact PLC
- Best Share Registrar
- FD of the Year
- CEO of the Year
- Deal of the Year

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IPF fears look overdone

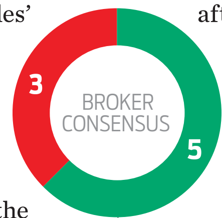
Consumer lender's capital strength provides comfort

WILLIAM CAIN

Non executive director Tony Hales' contrarian £95,000 share purchase at international consumer lender **International Personal Finance (IPF)** could signal negative investor sentiment towards the stock is overdone.

Adverse legislation in Poland through the introduction of a fee cap on loans in the country has hit IPF's stock price hard because it earns 40% of its revenue in the country.

Shares in IPF are down 17% year-to-date after the ruling in early June, though management says it can mitigate around half the expected £30 million hit to profitability in 2016. Analysts at Liberum now forecast profit-before-tax at £117 million in the year to 31 December 2015 and £108 million in 2016. IPF's market cap is £824 million.



'In the last 18 months, IPF has been caught in a perfect storm – negatively impacted by forces largely beyond its control i.e. adverse foreign exchange movements and a hardening regulatory regime in some of its markets,' writes analyst Justin Bates at Liberum, who has a 'sell' rating on the stock.

In our view, balance sheet strength at IPF means a big chunk of the remaining cuts to forecast profitability will be mitigated through its ongoing share buy-back programme. Earnings per share are expected to drop just 7.6% between last year's reported result and 2016 before returning to growth in 2017.

Liberum argues there could be more EPS cuts down the line.

IPF is down 18.3% since our bullish call (*Sector Report, Shares*, 26 Feb) versus a FTSE All-Share return of -6% (total return).

SHARES SAYS:

IPF's strong capital position should provide enough flexibility to ride out the storm.

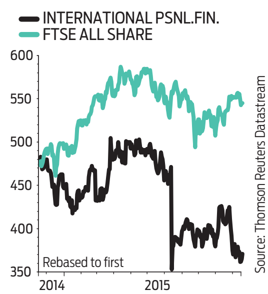
THE TRADE

Buyer:
Tony Hales (Non-executive director)

Consideration:
£94,963

No. of shares bought:
25,000

Subsequent holding:
75,000 (0.03%)



DEALS THIS WEEK

Company	Director	Pos.	Date	Price (p)	No. of shares	Value (£)
TOP BUYS						
Standard Chartered	Bill Winters	ED	12/11/15	599.1	168,000	1,006,454
Standard Chartered	Sir John Peace	CH	12/11/15	591.2	50,000	295,600
Kennedy Wilson	Mary Ricks	NED	13/11/15	1175.0	20,000	235,000
FirstGroup	Wolfhart Hauser	NED	12/11/15	99.7	150,000	149,469
Ashmore	Peter Gibbs	NED	12/11/15	249.4	50,000	124,695
Gaming Realms	Patrick Southon	CEO	12/11/15	25.0	400,000	100,000
TalkTalk Telecom	Dido Harding	CEO	11/11/15	244.1	40,966	99,998
Meggitt	Colin Day	NED	09/11/15	383.9	25,000	95,975
International Personal Finance	**Tony Hales**	**NED**	**09/11/15**	**379.9**	**25,000**	**94,963**
Morgan Advanced Materials	Andrew Shilston	CH	13/11/15	236.9	40,000	94,740
Safestyle UK	Stephen Birmingham	CEO	09/11/15	218.2	40,000	87,280
Horizon Discovery	Graham Cook	NED	12/11/15	141.0	42,250	59,573
Laird	Mike Parker	NED	11/11/15	346.6	17,000	58,919
City of London Investment	Mark Dwyer	ED	09/11/15	336.0	15,000	50,400
Athelney Trust	Simon Moore	NED	13/11/15	225.0	20,700	46,575
TOP SELLS						
WH Smith	Robert Moorhead	FD	12/11/15	1657.7	100,000	1,657,720
Hays	Paul Venables	FD	11/11/15	14155.0	7,217	1,021,566

Source: *Shares*

Key

CD	commercial director
CEO	chief executive officer
CED	chief executive of division
CFO	chief financial officer
CH	chairman
COO	chief operating officer
CS	company secretary
D	director
DCH	deputy chairman
ECH	executive ch
ED	executive director
FD	finance director
MKD	marketing director
NECH	non-executive chairman
NED	non-executive director
OD	operations director
SD	sales director
SEC	secretary

TAKING OVER THE TECH

STEVEN FRAZER

OUTSOURCING IT AND COMMUNICATIONS REMAINS A FERTILE INVESTMENT THEME

High-speed technology and connectivity are long-run business and consumer themes that have for several years attracted hefty investment, but there remain sub-sector niches that continue to emerge, many of them under the radar of many retail investors.

We all know that the internet has transformed the way we communicate, shop and even entertain ourselves.

We also know that super-fast broadband, the proliferation of wi-fi networks and a mountain of various on-the-go devices no longer bolt us to our homes or work desktop. But what some of us may not have understood is the convergence of basic IT services and communications networks under a single banner, and often outsourced to a specialist third-party supplier. Welcome to the world of managed services.

CONCEPT EXPLAINED

In simple terms, managed services is really about outsourced IT and communications (ICT) networks integration. A specialist supplier will take ownership for delivery of a defined set of ICT services to the customer. This is a global trend yet it is arguably more valuable to smaller and mid-sized enterprises (SMEs). The reasons are largely twofold.

First, the increasing breadth of technology solutions means that an SME's in-house IT team often lack capacity, scale, experience, even knowledge of alternatives. Secondly, it's cost efficient. An SME's in-house team, perhaps one to half a dozen IT people, are a fixed cost with a skill-set not necessarily in demand on a daily basis.

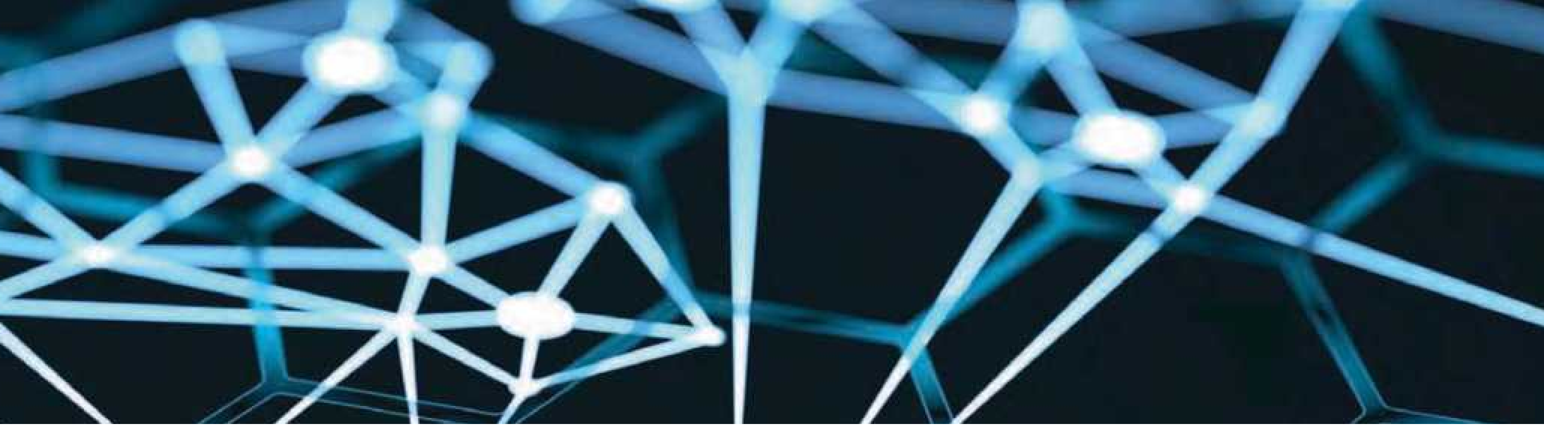
Bring a specialist outsource supplier on board adds valuable expertise that can deliver best-of-breed combinations of networks, hardware and software with specialist support. It also lends flexibility to the cost base, an SME can crank up their outsourced service provision quickly and easily as the client business expands, or reduce demand and expenses in tougher trading climates dominated by contraction.

And it's a win-win situation because there are benefits to a managed services supplier too, including the 'appeasement of churn via the closer relationship with the provider of essential services, and typically longer service provision contracts,' explains Andrew Darley, FinnCap's respected technology analyst, in an extensive piece of research.

'Increased complexity makes it far more difficult to churn all services away, albeit full cloud flexibility means flexing down as well as up is possible over contract periods, subject, typically, to minimum spend requirements or their equivalent.'

CHANGING LANDSCAPE

This is a sub-sector niche that has, and continues to see, plenty of change. Darley admits that 'when we first considered writing a piece on this topic, it was a much more heavily populated sector.' He reminds us that there has been plenty going on the takeover front over the past 12 to 18 months or so. 'We've seen a failed bid for **Iomart (IOM:AIM)**, and we've waved goodbye to listings for



Daisy, Accumuli, Advanced Computer Software, Phoenix and, most recently, COLT.'

Outside of the Accumuli acquisition, effectively a trade sale executed by escrow, ethical hacking and cyber security firm **NCC (NCC)**, most of the buyers have come from the private equity world. This comes as no surprise. Managed services companies normally offer reliable and attractive levels of cash generation that helps support the typically higher levels of debt and gearing of companies that operate out of the gaze of public markets.

Daisy is a good example. Founded by Matthew Riley, Sir Alan Sugar's one-time right-hand man on the BBC's *Apprentice* show, his company found itself often criticised for its apparent unquenchable thirst for mergers and acquisitions (M&A), its level of cash generation and its limited dividends. That ultimately led a very progressive share price to become bogged-down, sparking the interest of private equity investors Toscafund and Penta, and ending up with their joint £494 million, 185p per share buyout.

Behind the veil of private equity ownership, Daisy has since been able to leverage its balance to, arguably, levels that would not easily be tolerated had the company remained on the stock market. The company launched a further SME ICT outsourcing consolidation raid on back-up and disaster recovery specialist Phoenix IT on 8 June, originally hinted at by *Shares* in our *Griller* interview with then CEO Stephen Vaughan nearly a year earlier, on 4 September 2014.

M&A HOTSPOT

Investors can expect more of the same because M&A isn't going away. 'Among the varying profiles of indebtedness, cash generation, margin and yield, the only constant is acquisition,' reveals FinnCap's Darley. 'M&A looms large in managed services with listed stocks as both acquirer and target.'

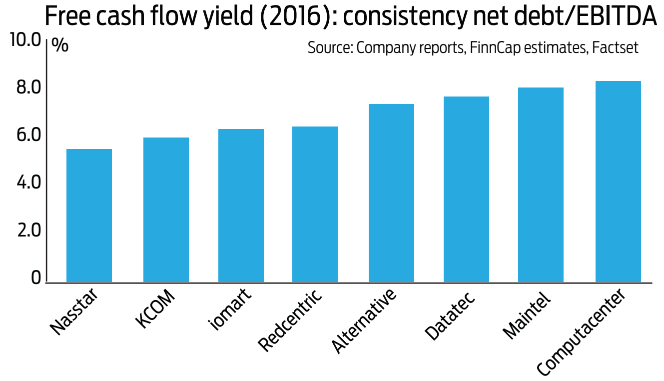
Companies such as current *Shares Play of the Week* **Redcentric (RCN:AIM)**, former *Play* Iomart and buy and build minnow **Castleton Technology (CTP:AIM)** have all been consistent and busy acquirers. Elsewhere, the likes of **KCOM (KCOM)**, **Manx Telecom (MANX:AIM)** and *Shares* pick for 2015 **Gamma Communications (GAMA:AIM)** all have scope to more aggressively add to sub-sector consolidation, in much the same way that **Alternative Networks (AN.:AIM)** did at the start of 2014, or fall prey to a buyer themselves.

Considered by many to be a genuine blue-chip company on AIM, Alternative Networks had earned its reputation thanks to consistent growth, cash generation and attractive dividends. Yet in January 2014 it pulled the M&A switch twice in the same month, buying Intercept IT and Control Circle, bolstering its otherwise reliable organic growth. That the share price has failed to match the 2012 and 2013 surge since is arguably as much down to the absence of a busy M&A strategy as the over-riding trading backcloth.

In the end, it's growth that counts more than anything else in the managed services sub-sector, at least for now. 'Yield is a splendid fillip to an investment case, supporting mature businesses with high levels of distributable cash, but also emphasising management confidence for smaller and less mature businesses,' says FinnCap's Darley. But, he adds the important caveat that, 'where turnover growth is significant, the yield can be less punchy – the benefit of growth, whether acquired or otherwise, is key.'

'None of the companies we have looked at will stay still, and the irony of all the detailed forecasting is that we know that our forecasts will not, for the most part, come to pass, being that each company will most likely either acquire or be acquired sometime in the next 12 months,' Darley concludes.

Free cash flow yield (2016): consistency net debt/EBITDA



Source: Company reports, FinnCap estimates, Factset

COMPLEXITY AND CUSTOMER CHURN

Source: Alternative Networks. FinnCap

Book in to British hotels

Rising demand and an improving economy are boosting the sector's fortunes

EMILY PERRYMAN

UK hotels have witnessed a stellar couple of years with London occupancy at its highest level for a decade and double digit RevPAR (revenue per available room) growth in several regional cities. With demand still outstripping supply we think the prospects for stocks like **Whitbread (WTB)** and **PPHE Hotel (PPH)** are very promising.

REWARDING REGIONS

London has dominated the hotel sector for many years but it's the regional hotels that have been experiencing the biggest growth in 2015. Their performance is closely correlated to the UK economy which is witnessing higher consumer spending as a result of low oil and food prices and positive real earnings growth. Hotels in the regions enjoyed bumper RevPAR growth of 10.4% in 2014 and further growth of 6.3% is expected this year, according to PwC.

Around half of all new rooms set to open in 2016 are expected to be branded budget rooms which makes Whitbread, the owner of Premier Inn, one of our top stock picks.

Whitbread, which also owns the coffee shop chain Costa, is a high quality stock with encouraging expansion plans but the £8.7 billion cap's share price has fallen from a peak of £54.40 in May to £47.32, which we think is a buying opportunity. Investors have been concerned about the departure of its well-respected chief executive Andy Harrison, who is retiring at the end of the February 2016 financial year and will be replaced by **Lloyds Banking (LLOY)** director Alison Brittain.

We're not overly concerned about the management change and agree with Whitbread's chairman Richard Baker, who says the chief executive's job is to deliver strategy rather than rewrite it.

Investors have also been put off by Whitbread's weak trading statement on 8 September, which revealed soft August trading. We think the market overreacted because although the like-for-like sales growth was just 3.3% this was in the face of tough comparatives from last year's Commonwealth Games and Farnborough Airshow. August also had wetter and colder weather than last year, which coupled with improving consumer sentiment, resulted in more people going on holiday abroad.

Whitbread's first half results showed an encouraging 13.8% rise in pre-tax profit to £291.3 million in the six months to 27 August.

HOTELS

SUMMARY

An impressive performance by hotels in the provinces is helping UK hotels weather the plummeting euro. The main driver is the growth in UK consumer spending, which is expected to be stronger than GDP growth this year. There is an ongoing shift towards branded, budget hotels which is hurting the mid-market and independent sectors.

Premier Inn's RevPAR rose by 4.6% with impressive sales growth of 20.6% in London. Trading is expected to strengthen in the next quarter as a result of the Rugby World Cup and recovering UK economy, and Premier Inn should get a boost after recently being named the UK's top-rated hotel chain in a survey by *Which?*.

While demand continues to outstrip supply, 2016 is expected to be an above average year for room growth. There are 38,000 rooms in the UK's active pipeline with Whitbread accounting for 14,000 – 37% of the total.

'There is a structural shift in train where branded hotels are growing at the expense of the mid-market and independent sector, and Whitbread is a key player,' says Canaccord Genuity analyst Nigel Parson.

Whitbread's pre-tax profit is expected to grow by 14.5% to £558.9 million in February 2016 yet at £47.32 it trades on a forward price to earnings ratio of 19.5, which looks reasonable given its long-term growth prospects and high quality brands.

LONDON LAGS

London hoteliers had a record 2014 but the pace of growth in the first half of 2015 was mixed as a result of the fall of the euro against the pound, which discouraged Europeans from travelling to the capital. Despite this PwC forecasts an occupancy level of 84% in 2015, the highest level this decade, while RevPAR growth is expected to be lower than the regions at 2.7%.

Did you know? London is the most Googled city in the world

London-based PPHE Hotel, operator of the luxury Park Plaza hotel brand, has had a very good year with its shares rising 50% to 665p over the past 12 months. The £279 million cap issued a set of forecast-beating interim results on 27 August with revenue up by 12.4% to €141 million, boosted by particularly strong trading in The Netherlands and Germany.

PPHE is carrying out extensive renovations at several properties over the next few years which could have a negative impact on its performance but should be beneficial in the long-run. It is opening two new hotels in London in the second quarter of 2016 which will increase the number of rooms by 25%.

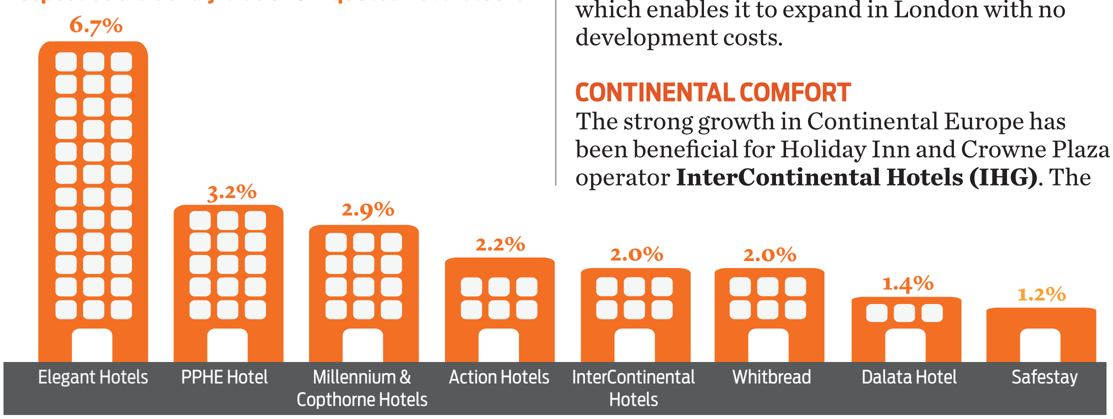
FinnCap reckons that when the new London hotels are opened in 2016 the uplift from cost to fair values could be worth an additional 246p per share. 'This would raise our target price from 880p to £11.26. However, we highlight that all of our fair value calculations use old (2013 and 2011) valuations on which we have some visibility. Bringing these valuations up to date should add further value,' says FinnCap analyst Guy Hewett.

PPHE also owns the art'otel brand, a high-end hotel with a hip art gallery which is focused on a younger clientele than Park Plaza. It recently signed a management agreement for a new 160-room art'otel at Battersea Power Station which enables it to expand in London with no development costs.

CONTINENTAL COMFORT

The strong growth in Continental Europe has been beneficial for Holiday Inn and Crowne Plaza operator **InterContinental Hotels (IHG)**. The

Prospective dividend yields of UK-quoted hotel stocks

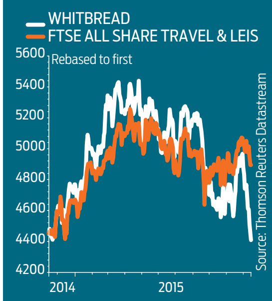


Source: Shares, Sharepad, broker notes

Whitbread
(WTB) £47.32 ▲

Market value:
£8.7 billion

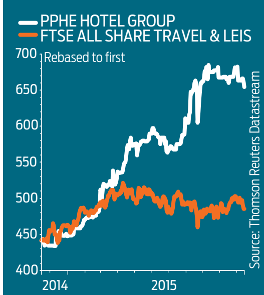
Prospective PE Feb 2016:
19.5



PPHE Hotel
(PPH) 665p ▲

Market value:
£279 million

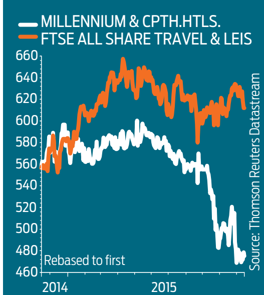
Prospective PE Dec 2015:
10.5



Millennium & Copthorne
(MLC) 472.5p ▼

Market value:
£1.5 billion

Prospective PE Dec 2015:
20.9



Did you know? There were over 16.8 million overseas visits to the UK in the first six months of 2015

world's largest hotel operator recorded a 4.8% rise in global RevPAR in the third quarter, led by a rate increase of 3.6%.The biggest RevPAR growth was in Continental Europe, up 10.1%, driven by solid trading in Germany and a recovery in Southern Europe and Russia.

InterContinental now has 727,000 rooms worldwide, up 4.3% on last year, and says it is signing hotels into its pipeline at the fastest rate since 2008. Its full year pre-tax profit is expected to rise by 3.6% to $621.7 million with earnings per share growth of 16% to 183.9c, which at £26.69 puts it on a forward earnings multiple of 14.5.

The biggest factor weighing on InterContinental is the strength of the US dollar, which reduces group RevPAR to a 0.4% decline when reported at actual exchange rates. Currently trading at £26.22, the shares recently spiked by 6.2% on reports it is considering a sale or merger of the company. InterContinental has since denied the rumours.

SINGAPORE SLUMP

Hotels focusing on Asia have had a difficult time this year. **Millennium & Copthorne (MLC)**, which gets more than half of its EBIT (earnings before interest and tax) from the region, saw its pre-tax profit fall by 28% in the third quarter as a result of the challenging market conditions.

The group says the Singapore market is unlikely to stabilise until the end of 2017, visa restrictions are a problem in Taipei, and Middle East Respiratory Syndrome has impacted visitor numbers in Seoul. Credit Suisse forecasts pre-tax profit of £141.6 million for the year ending December 2015, a drop of 24.7% from 2014.

MIDDLE EASTERN PROMISE

Better growth is be found in the Middle East and Australia, where franchise specialist **Action Hotels (AHCG:AIM)** concentrates. The £91.4 million cap facilitates the expansion of mid-market hotel brands like Ibis, Holiday Inn and Premier Inn in places like Kuwait, Oman, Bahrain and Melbourne, Australia.

Action Hotels aims to have 5,000 rooms by 2020 and has an established fully-funded pipeline of 1,405 rooms. It is exploiting the undersupplied three and four star hotel market in the Middle East and its brands appeal to cost-conscious business travellers. Action Hotels' pre-tax profit is expected to fall from $2.2 million in 2014 to $1.5 million in 2015 as a result of hotel opening costs before jumping to $4.3 million in 2016. Investec reckons the share price will rise by 32% from 63.5p to 84p.

Another stock looking to tap into the Middle East is budget accommodation provider **EasyHotel (EZH:AIM),** which currently has three up-and-running owned hotels in the UK and 18 franchised hotels in the UK and Europe.

The £41.6 million cap announced on 10 November an agreement with MAN Investments to develop EasyHotels in the United Arab Emirates and Oman. MAN, which will develop the hotels under a franchise agreement, aims to open 600 rooms by 2017 and at least 1,600 rooms by the end of 2020. It's a turn-up for the group which suffered two earnings downgrades by analysts in June and October as a result of its delay in opening new hotels, sending the share price down 28% to 68.5p over the past 12 months.

Another high growth yet under-supplied region is Ireland, particularly Dublin. **Dalata Hotel (DAL:AIM)** has been on an acquisition spree in the country and is on track for a sixfold pre-tax profit increase from €6.3 million in 2014 to €39.5 million in 2015. Its reverse takeover of Moran

THE AIRBNB THREAT

ONE OF THE biggest threats to the hotel sector in the UK is the rise of shared accommodation platforms. According to PwC there are now around 141,000 hotel rooms in London but Airbnb is growing at a frightening pace with 31,000 listings available at the end of July.

PwC says the increased number of Airbnb listings will cause localised issues for hotels around pricing pressure and/or underuse and will be particularly felt during a downturn.

'Looking ahead, it will be interesting to see how much of a threat sharing economy platforms pose to hotels and if shared platforms will take the "cream off the milk" at the times of peak demand,' it says. 'Like the branded budget hotels 30 years ago, will rental sites create a new stream of demand for destinations and allow hotels to capitalise on a new type of customer?'

Separate research from STR shows Airbnb increasingly offers higher rates than conventional hotels. Airbnb's largest share of total accommodation (some 12% of all listed London accommodation) falls in the £300 to £399 a night bracket, which means only Westminster, Hackney and Lambeth offer average daily hotel rates that are more expensive than the room sharing site.

Bewley Hotels in February 2015 significantly increased its position in the Dublin market and drove a near tenfold rise in EBITDA.

HOT HOSTELS

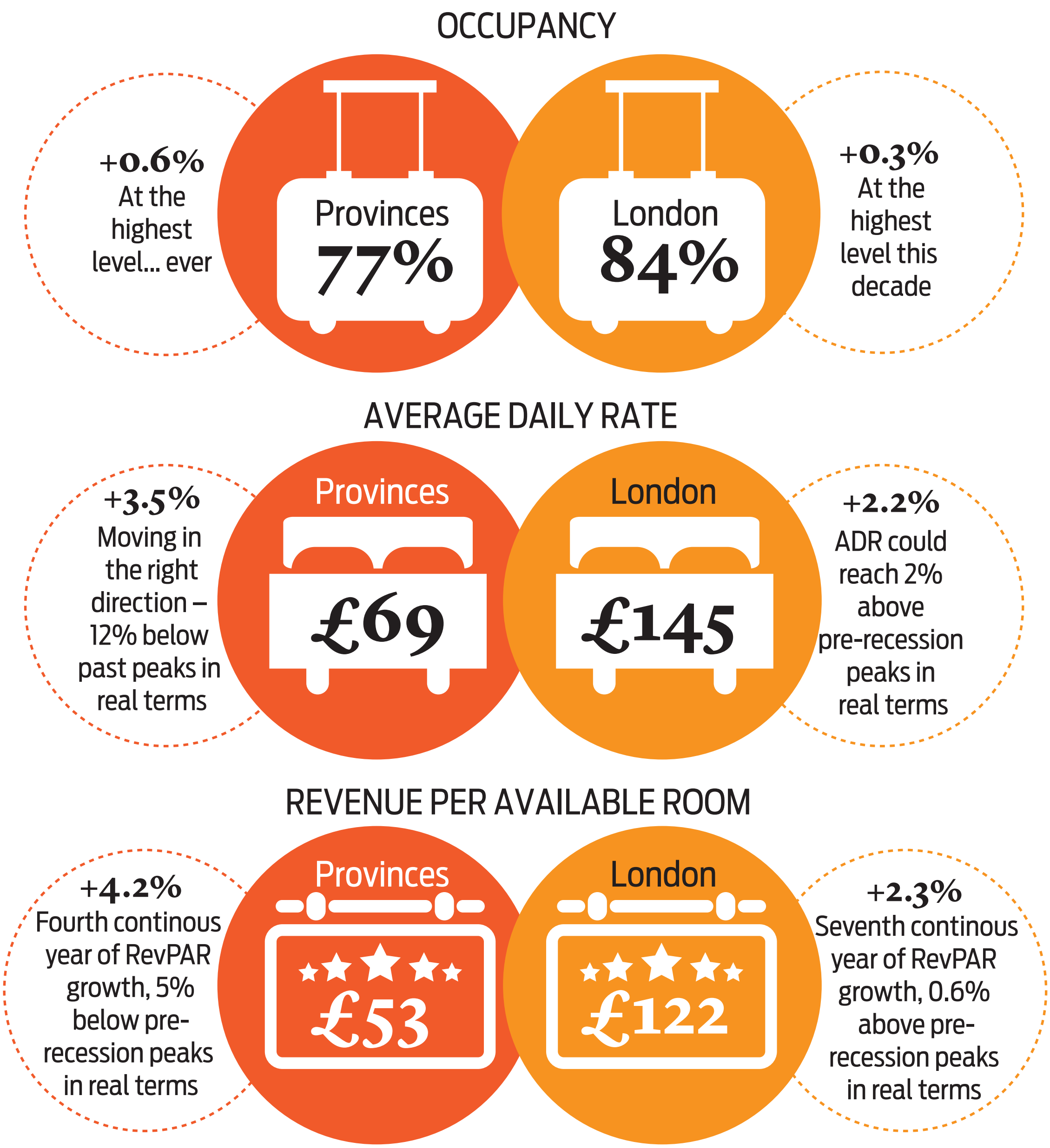
Our preferred pick in the budget accommodation sector is **Safestay (SSTY:AIM)**, which floated in May 2014 with one boutique hostel in Elephant & Castle and has since opened a hostel in York and in Holland Park. It recently acquired a hostel/student accommodation scheme in Edinburgh following an open offer of shares to raise £9.3 million plus an £8.5 million debt facility.

The £22.9 million cap plans to build a portfolio of 20 to 25 hostels across Europe with six in the UK. Its flagship Elephant & Castle property increased its occupancy from 75.6% to 79.6% in the six months to 30 June with total bed revenue up 5%, but its hostel in York is performing below expectations.

Safestay is forecast to make a pre-tax loss of £100,000 in 2015 and a profit of £1.4 million in 2016. Westhouse's target price is 120p, 79% higher than the current share price of 67p.

Did you know? Over 16,000 new hotel rooms are set to open in the UK in 2016

2016 FORECASTS



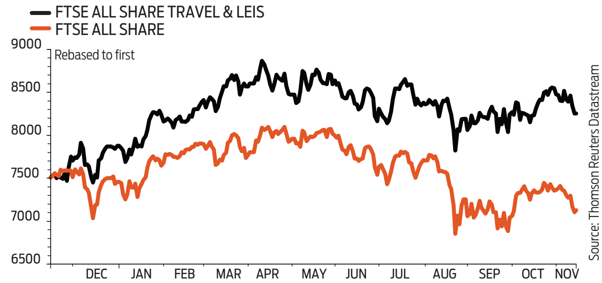
Source: PwC

TRAVEL & LEISURE

CORE HOLDING

Whitbread (WTB)
Premier Inn and Costa owner Whitbread is a high quality stock with well-respected brands and impressive expansion plans. The market's overreaction to softer August trading is a buying opportunity ahead of a likely boost in sales from the Rugby World Cup and the strengthening UK economy. Canaccord Genuity estimates earnings per share will grow to 402.3p by 2020 from 212.2p in 2015, giving a compound annual growth rate of 13.6%.

SECTOR PERFORMANCE



BEST PERFORMING SECTORS, 2015

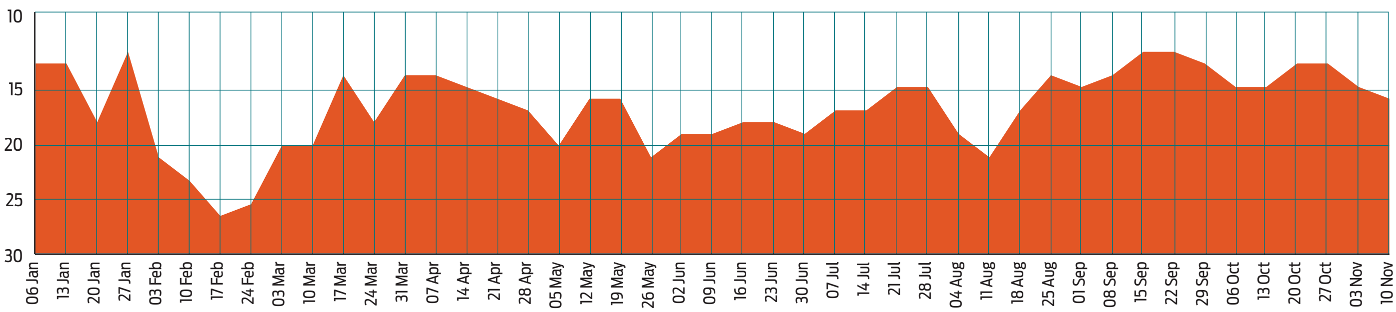
	Performance (%)
1. Forestry & Paper	40.4
2. Nonlife Insurance	24.9
3. Software & Computer Services	24.5
4. Household Goods & Home Construction	21.9
5. Construction & Materials	14.8
17. Travel & Leisure	6.6

WORST PERFORMING SECTORS, 2015

	Performance (%)
35. Industrial Engineering	-15.8
36. Automobiles & Parts	-16.5
37. Oil Equipment, Services & Distribution	-17.4
38. Mining	-38.9
39. Industrial Metals & Mining	-45.6
FTSE ALL-SHARE	-2.5

Data to 03/11/2015. Source: *Shares*, Thomson Reuters Datastream

WEEKLY SECTOR RANKING, 2015



Source: *Shares*, Thomson Reuters Datastream

BEST AND WORST SECTOR PERFORMERS

ONE MONTH

Company	EPIC	Performance (%)
TOP		
Domino's Pizza UK & IRL	DOM	22.1
Flybe	FLYB	14.7
Punch Taverns	PUB	13.5
National Express	NEX	12.3
Playtech	PTEC	8.8
BOTTOM		
Enterprise Inns	ETI	-6.1
Cineworld	CINE	-6.3
Millennium & Copthorne Hotels	MLC	-7.0
Sportech	SPO	-8.4
Thomas Cook	TCG	-8.8

THREE MONTHS

Company	EPIC	Performance (%)
TOP		
Domino's Pizza UK & IRL	DOM	16.8
Rank	RNK	11.9
TUI	TUI	10.8
International Consolidated Airlines	IAG	9.0
Punch Taverns	PUB	5.5
BOTTOM		
Whitbread	WTB	-11.8
Enterprise Inns	ETI	-13.8
Sportech	SPO	-15.8
Millennium & Copthorne Hotels	MLC	-15.9
FirstGroup	FGP	-16.3

TWELVE MONTHS

Company	EPIC	Performance (%)
TOP		
Rank	RNK	71.7
Domino's Pizza UK & IRL	DOM	67.9
Cineworld	CINE	66.2
International Consolidated Airlines	IAG	46.5
Carnival	CCL	41.0
BOTTOM		
Thomas Cook	TCG	-14.1
Millennium & Copthorne Hotels	MLC	-15.4
FirstGroup	FGP	-20.4
Enterprise Inns	ETI	-20.9
Flybe	FLYB	-31.0

PEST ANALYSIS

POLITICAL	ECONOMIC	SOCIAL	TECHNOLOGICAL
· National living wage · Tube strikes · Political stability to encourage foreign visitors	· GDP growth · National taxation policies · Interest rates	· Consumer confidence · Global brand recognition · Impact on local community	· Green technology · Multi-channel booking capability · Virtual check-in facility

SECTOR BROKER CALLS - LIVE RECOMMENDATIONS

Company	Broker	Start date	Action	Previous recommendation	New recommendation	Previous target (p)	New target (p)	Share price (p)	Target change (p)
Restaurant Group	Peel Hunt	12/11/15	Downgrades	Buy	Add	787.0	768.0	672.5	-19.0
Whitbread	Jefferies International	11/11/15	Downgrades	Hold	Underperform	4,300.0	4,100.0	4,512.0	-200.0
Betfair	Numis	6/11/15	Upgrades	Reduce	Buy		4,000.0	3,450.0	-
William Hill	Investec	4/11/15	Upgrades	Reduce	Add	333.0	333.0	333.6	0.0
Wetherspoon (J D)	Peel Hunt	4/11/15	Downgrades	Hold	Sell	711.0	700.0	702.0	-11.0
Whitbread	Numis	2/11/15	Downgrades	Add	Reduce	5,600.0	4,400.0	4,512.0	-1,200.0
International Consolidated Airlines Group	Beaufort Securities	2/11/15	Upgrades	Hold	Buy	-	-	596.0	-
Compass	Credit Suisse	2/11/15	Downgrades	Neutral	Underperform	1,100.0	1,050.0	1,045.0	-50.0
Cineworld	Canaccord Genuity	30/10/15	Downgrades	Buy	Sell	620.0	535.0	541.0	-85.0
National Express	Liberum Capital	26/10/15	Upgrades	Hold	Buy	300.0	340.0	312.6	40.0

Data to: 12/11/2015
Source: *Shares*

SECTOR DIRECTOR DEALS OF THE PAST SIX MONTHS*

Company	Director	Position	Date	Price (p)	Amount	Value (£)
TOP BUYS						
Cineworld Group	Anthony Bloom	CH	18/08/15	591.0	50,000	295,500
bwin.party digital entertainment	Martin Weigold	FD	28/10/15	109.0	100,000	109,010
bwin.party digital entertainment	Philip Yea	CH	28/10/15	108.8	99,944	108,689
bwin.party digital entertainment	Philip Yea	CH	08/09/15	106.4	100,000	106,400
William Hill	Gareth Davis	CH	30/10/15	316.2	31,600	99,916
TOP SELLS						
Compass Group	Gary Green	ED	13/08/15	1,035.08	150,442	1,557,201
Restaurant Group	Tony Hughes	NED	15/10/15	705.00	200,000	1,410,000
Whitbread	Christopher Rogers	NED	21/10/15	4,846.05	25,751	1,247,906
Whitbread	Christopher Rogers	NED	26/10/15	4936.04	24,000	1,184,650
Go-Ahead Group	Keith Down	RES	05/11/15	2,501.60	24,101	602,911

*Only trades worth £10,000 or more included
Source: Shares

CAR WARS: THE INSURERS STRIKE BACK

RISING INJURY CLAIMS ARE MAKING VEHICLE POLICIES MORE EXPENSIVE AS INSURERS WORK TO PROTECT MARGINS

MARK DUNNE

It makes bad reading for motorists, but it's the news that some investors have long desired.

Vehicle insurance policies offered by general insurers – those who insure your home, car and dog – are getting more expensive after two years in the doldrums when more than £1 billion was wiped off the cost of such policies.

NO BUMPER PROFITS

This does not mean that insurers are set to report huge profit growth for 2015. The rise in premiums is designed to protect margins, not drive big returns. Stocks we believe will benefit from rising premiums are **Saga (SAGA)** and **Admiral (ADM)**.

The average motor premium increased by 9.2% in the 12 months to 30 September thanks to continued growth in the second and third quarters of 2015, according to the AA British Insurance Premium Index. This means that UK motorists are paying £48 more for their cover than they did a year earlier.

This trend is expected to continue. Car insurance premiums are forecast to increase by 15% in 2015 as a whole.

A rise in small injury claims is the catalyst behind motor policies becoming more expensive. 'Motor premium rises are good for shareholders, but the caveat is are prices going up by enough to off-set claims inflation?' Numis analyst Nick Johnson told *Shares*. 'Difficult to answer that until the full-year results in the next year or two.'

Esure (ESUR) saw premiums improve 5.9% to £364.1 million in the first nine months of 2015, or by £130.8 million. Commentary in the update quelled any hope that this would lead to huge profit gains by the year end, stating that rates have risen in line with claims inflation, implying stable margins and flat profits.

Despite this year's full-year results being unlikely to set the world on fire, the outlook for one insurer looks more promising off the back of higher premiums. *Shares* has taken a dim view of Admiral in recent months due to the high level of reserves it releases to strengthen its profits, but Johnson points to its track record of growth when prices are going up. It has lower costs than many of its competitors thanks to providing less cover for younger drivers.

Saga has branding power that some chief executives can only dream of. It is putting this work through the creation of a motor insurance panel. By working with other insurers it can increase the number of products it offers and should therefore convert more enquires into sales among drivers aged 50 or above.

CLAIMS CULTURE

The UK is a mature market for vehicle insurers in that everyone driving a car, van,

GENERAL INSURERS

INSURER	EPIC	SHARE PRICE	MARKET CAP
Admiral	ADM	£16.10	£4.4 billion
Direct Line	DLG	397.1P	£5.9 billion
Esure	ESUR	254.5P	£1 billion
Saga	SAGA	206.5p	£2.2 billion

truck or motorbike must buy some level of cover. Proactive insurers looking to grow their policy numbers will have to lure custom away from other insurers. This typically means providing an incentive, such as lower prices. Companies have been cutting their prices to win new business in the past few years as consumers increasingly turn to comparison websites to find cheaper cover.

Premiums also fell because of new rules introduced in 2013 that were supposed to make it harder for motorists to make smaller claims for injuries such as whiplash. Government action included capping legal fees and using independent doctors to assess injuries, but the number of claims is still rising and there are concerns that the pressure on margins will translate into losses.

Claims relating to road accidents were 12% higher for the year ending April 2015, according to data highlighted by the Association of British Insurers (ABI). Personal injury claims accounted for only 9% of all motor claims in the second quarter, but 46% of total claims costs for motor insurers, the ABI says.

Another factor is the insurance premium tax, which has risen 58.3% to 9.5% from 6%. This one-off levy is charged each time an insurance policy is bought in the UK. This has added around £20 to the price of a typical policy, according to the AA's estimates. The new tax has only been paid since the start of November and is set to make 2016 a tougher year for the industry unless they pass the cost onto the consumer.

This tax is also charged on home insurance, but this part of the market is not making the same headlines when it comes to pricing. Premiums are at a five-year low, according to the AA. Shop-around quotes for buildings, contents and combined policies all fell over the three months to 30 September, a downward trend that started in 2012.

The problem: a lack of property-damaging storms in the UK. Without paying out higher claims, insurers find it hard to justify lifting their quotes.

There are fears that claims could exceed the premiums collected. But this could all change if you believe what the weatherman says. As we write, a particularly nasty storm named Abigail by the Met Office has started battering parts of the country with winds that could potentially reach 80 miles per hour.

EARLY DAYS

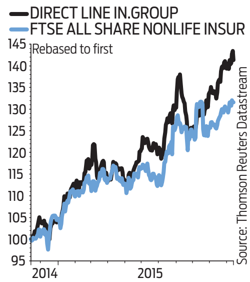
The rising cost of motor cover is already having some positive impact on general insurers. In the first nine months of 2015, **Direct Line (DLG)**, which owns the Churchill and Privilege brands, saw its motor premiums rise 4.1% to £1 billion on a 0.5% rise in policies to 3.6 million. A 6.6% fall in the price of home cover limited the group's overall premium growth to 1.3%, hitting £2.4 billion. Margins are tight with the group targeting a combined operating ratio of between 92% and 94% in 2015. The closer the figure is to 100% the less money it is making from underwriting.

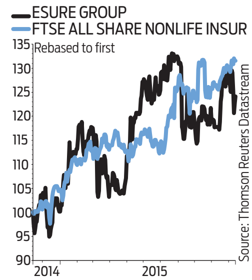
Esure's performance is worse with a combined ratio forecast of 96% or 97% for 2015, assuming normal weather events in the remainder of the year. The company has stated that its underwriting profit for the motor business is being hit by claims inflation and so rate increases are needed to protect margins.

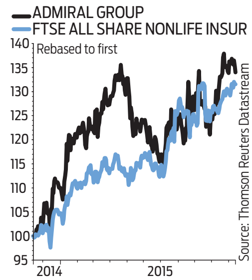
Admiral focuses on margin in its motor business, not market share. It was one of the first general insurers to raise prices for motor cover towards the end of 2014 and saw its UK car insurance profit rise 6% to £219.2 million in the six months to 30 June, although this was the result of higher reserve releases. This helped the motor business to a combined ratio of 75.6%, down from 83% at the end of 2014.

Consensus has pre-tax profits slipping 1.3% to £346.1 million for 2015, unless it releases more reserves than expected.

The strongest motor combined ratio in the general industry is found at Saga, at an impressive 68%. The group says it has not experienced the personal injury claims that other providers are reporting thanks to its customer-base of people over 50 years of age.







SHOP-AROUND HOME PREMIUM SUMMARY

TYPE	2015 Q2	2015 Q3	CHANGE	2014 Q3	ANNUAL CHANGE
Buildings	£108.96	£107.39	-1.4%	£110.85	-3.1%
Contents	£61.26	£60.00	-2.1%	£63.53	-5.6%
Combined	£152.93	£149.30	-2.4%	£159.38	-6.3%

Source: The AA

SHOP-AROUND MOTOR PREMIUM GROWTH

TYPE	2015 Q2	2015 Q3	CHANGE	2014 Q3	ANNUAL CHANGE
Comprehensive	£542.64	£568.55	+4.8%	£520.78	+9.2%
Third party, fire & theft	£759.75	£795.48	+4.7%	£739.99	+7.5%

Source: The AA

Swissie sentiment switch

Swiss franc back where it was before January's hyper volatility

DAVID JONES

The Swiss franc was the only currency story in town at the start of 2015 and focus is returning to the currency as we turn towards the end of 2016 with technical analysis suggesting the 'Swissie' could see renewed weakness against the US dollar.

Let's just remind ourselves what happened. On 15 January the country's central bank, the Swiss National Bank (SNB), announced it was abandoning its efforts to maintain control of the Swiss franc – in a matter of minutes, many other currencies plunged in value against the Swissie. In recent years the SNB had taken action to stop the Swiss franc strengthening too much against other world currencies.

It took this stance because around 70% of Switzerland's GDP is from exports and a strong currency does not help this, making products expensive overseas. Following the announcement that the central bank was taking a back seat, the US Dollar/Swiss Franc rate (USD/CHF) fell from around 1.02 to 0.74 – a 27% drop in a few minutes.

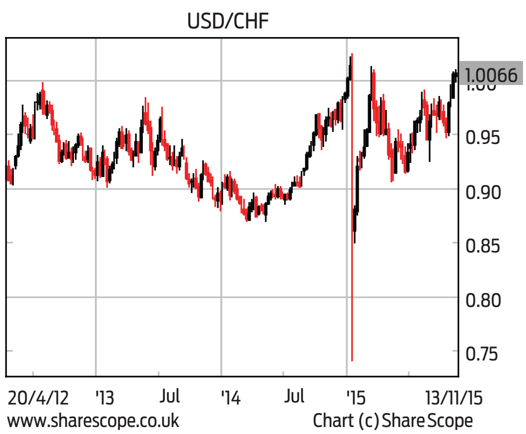
This plunge in USD/CHF reflected Swiss franc strength, as the Swiss National Bank was no longer standing in the way. Various Swiss companies also saw their share prices marked down, as suddenly their goods and services became an awful lot more expensive to foreign buyers.

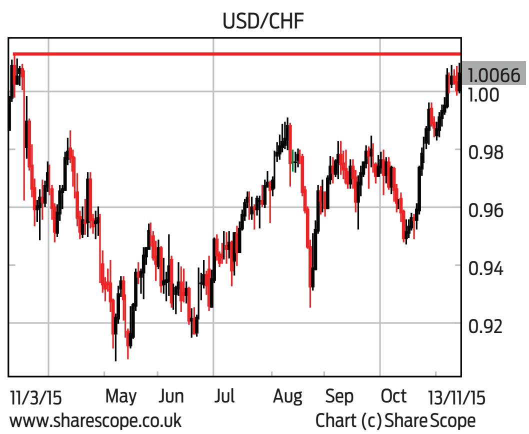
So when the SNB stepped back from trying to control its currency, there were understandably major worries about the impact this would have on the Swiss economy. So how has it performed in the interim? The answer is, probably not as bad as many would have forecast. Exports to the UK and US rose in the first quarter of the year compared to 2014 and the expectation is that overall Swiss exports will grow by around 1.5% for this year. Maybe luxury watches and cuckoo clocks are not as price sensitive as feared.

Back to the currency. At the end of last week, USD/CHF was trading around parity – where one US dollar buys you one Swiss franc. That is a 6% rally in the past six months – and here we are talking about a recovery by the US dollar. The pair is now not a million miles away from where it was when the Swiss National Bank surprised markets in January – back then it was trading around 1.02.

Interest rate speculation has helped the US dollar in recent months. It really is the major obsession for currency markets at the moment with many now expecting the US central bank, the Federal Reserve, to make its first move upwards on rates in December. Rates also play a part in keeping the Swiss franc relatively weak – that country is running a negative interest rate at the moment of -0.75%.

It should be an interesting end to the year for USD/CHF, although admittedly not as exciting as the beginning of 2015. For the past 12 months there has always been a change in sentiment when the currency pair is up around these levels. Sellers have stepped in and USD/CHF has reversed. The 1.02/1.03 area really has proved to be quite the barrier. For now at least there is no reason to think that this time is different and a dip back to the 0.9500 zone looks achievable. But, if USD/CHF does manage to move through 1.03 it looks like a new era of Swiss franc weakness is beginning.





Trend watch alerts

Moving average data signals two interesting trading opportunities

DAVID JONES

OUR PREFERRED METHOD of technical analysis is to follow trends. Tools such as moving averages can help with identifying a trend so this week we focus on shares that have crossed above their 50-day moving average. Traditionally this can suggest that any medium term weakness is over and more gains are expected.

Inchcape (INCH)

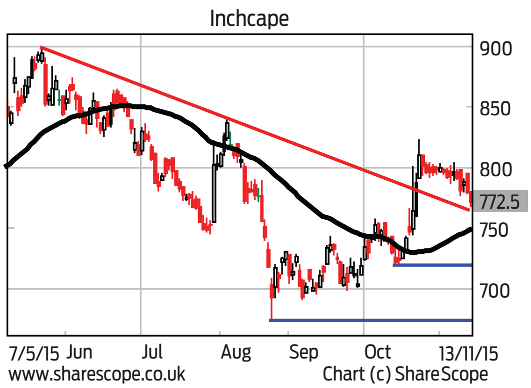
Buy 760p

Target £10.00

Stop Loss 665p

THE LAST FEW years have been good ones for this major car dealer group. Car dealers during the financial crisis were heavily hit as investors worried that cheap money would dry up. But record-low interest rates have meant that the latest bit of shiny metal on wheels is cheaper than ever. Inchcape shares have increased more than tenfold off the 2009 lows. The share price had been under some pressure since May 2015 but now looks to be past the worst.

It started pushing through the moving average in October, and has also broken the downtrend, which for now is seen as just a correction in that multi-year uptrend. If this is the start of yet another push higher, then any weakness should not break the summer lows ahead of 670p. A more aggressive stop loss would be just beyond the 720p low from mid-October. The obvious initial target if the trend is resuming is a return to this year's highs at 900p, with all-time highs at £10.00 the ultimate objective.



Howden Joinery (HWDN)

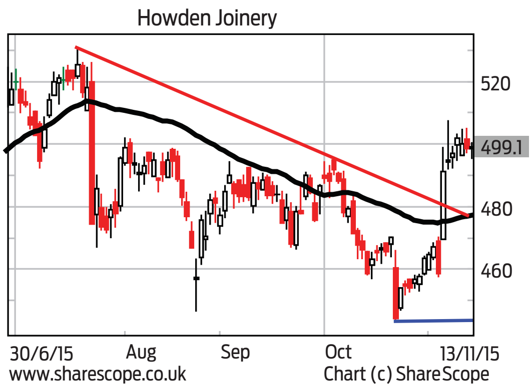
Buy 495p

Target 650p

Stop Loss 430p

BUILDERS MERCHANT HOWDEN is another one for the 'Harry Hindsight' portfolio – shares that you wish you had a time machine to go back and buy. Since the depths of 2009, its price has risen more than 30-fold. The share price had spent most of the summer in reverse but as ever, even with impressive trends like this one, it doesn't mean that the price goes up every day. There will be corrections along the way and for now that is how the weakness at Howden is viewed.

The drift in price found support a couple of times ahead of 440p; and this was also an important low from March this year. Successful tests of a level like this are very useful when it comes to deciding where the longer term stop loss should go. The strength in recent weeks has managed to push through the downtrend line and back above the 50-day moving average. Both of these make this share an interesting one, suggesting that the next leg higher is starting.



THE BEST & WORST PERFORMERS

DATABANK

FTSE 350

TOP 10

1 MONTH ▲

COMPANY	EPIC	PERFORMANCE (%)
Cable & Wireless Communications	CWC	26.3
Domino's Pizza UK & IRL	DOM	19.7
DCC	DCC	19.4
SuperGroup	SGP	17.4
Al Noor Hospitals	ANH	16.4
Ted Baker	TED	15.9
Provident Financial	PFG	14.6
National Express	NEX	13.4
Dignity	DTY	13.3
Jimmy Choo	CHOO	12.2

3 MONTHS ▲

COMPANY	EPIC	PERFORMANCE (%)
OneSavings Bank	OSB	34.9
Amlin	AML	27.5
Al Noor Hospitals	ANH	26.4
AO World	AO.	23.6
Hargreaves Lansdown	HL.	21.7
Regus	RGU	21.6
SABMiller	SAB	21.6
Polymetal International	POLY	21.5
Provident Financial	PFG	19.7
Cable & Wireless Communications	CWC	17.9

12 MONTHS ▲

COMPANY	EPIC	PERFORMANCE (%)
JD Sports Fashion	JD.	116.9
OneSavings Bank	OSB	99.9
SuperGroup	SGP	91.3
Greggs	GRG	84.6
Rightmove	RMV	76.5
Regus	RGU	74.6
Rank	RNK	70.3
DCC	DCC	67.1
Provident Financial	PFG	64.6
Ted Baker	TED	64.3

BOTTOM 10

1 MONTH ▼

COMPANY	EPIC	PERFORMANCE (%)
Nostrum Oil & Gas	NOG	-27.8
Hunting	HTG	-28.8
Vedanta Resources	VED	-30.1
SIG	SHI	-30.7
Home Retail	HOME	-31.4
Anglo American	AAL	-32.8
Pearson	PSON	-34.5
KAZ Minerals	KAZ	-40.2
Amec Foster Wheeler	AMFW	-40.5
Petra Diamonds	PDL	-43.0

3 MONTHS ▼

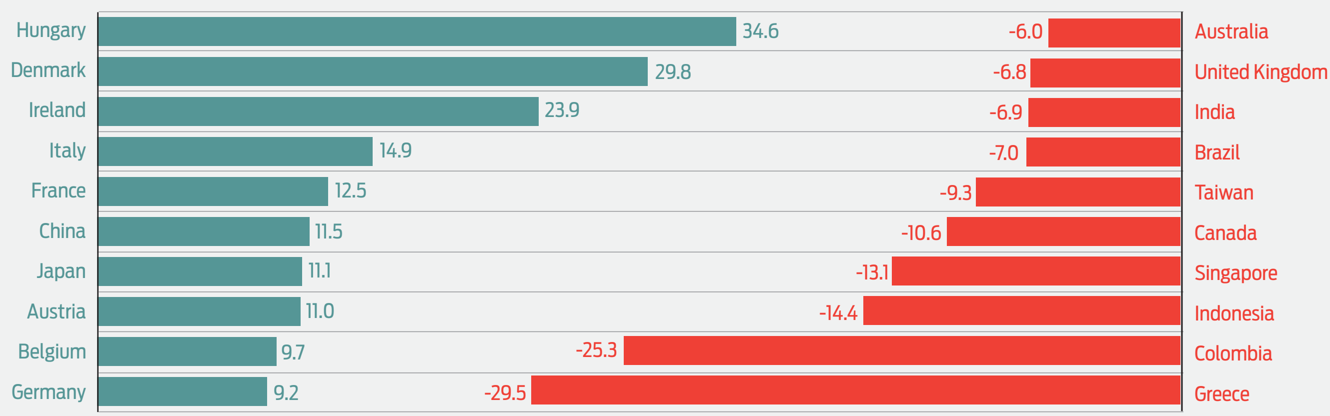
COMPANY	EPIC	PERFORMANCE (%)
Hunting	HTG	-35.0
Acacia Mining	ACA	-36.1
Premier Oil	PMO	-37.5
SIG	SHI	-38.1
Home Retail	HOME	-38.7
Anglo American	AAL	-40.4
Amec Foster Wheeler	AMFW	-43.2
Glencore	GLEN	-47.3
KAZ Minerals	KAZ	-48.1
Petra Diamonds	PDL	-64.7

12 MONTHS ▼

COMPANY	EPIC	PERFORMANCE (%)
Ophir Energy	OPHR	-51.8
Hunting	HTG	-54.8
Amec Foster Wheeler	AMFW	-54.9
Tullow Oil	TLW	-60.3
Drax	DRX	-60.5
Anglo American	AAL	-66.5
KAZ Minerals	KAZ	-69.8
Petra Diamonds	PDL	-70.0
Glencore	GLEN	-71.6
Premier Oil	PMO	-71.7

* Excluding Equity Investment Instruments, Nonequity Investment Instruments
Date to: 16/11/2015. Source: Thomson Reuters Datastream

GLOBAL MARKETS (%)

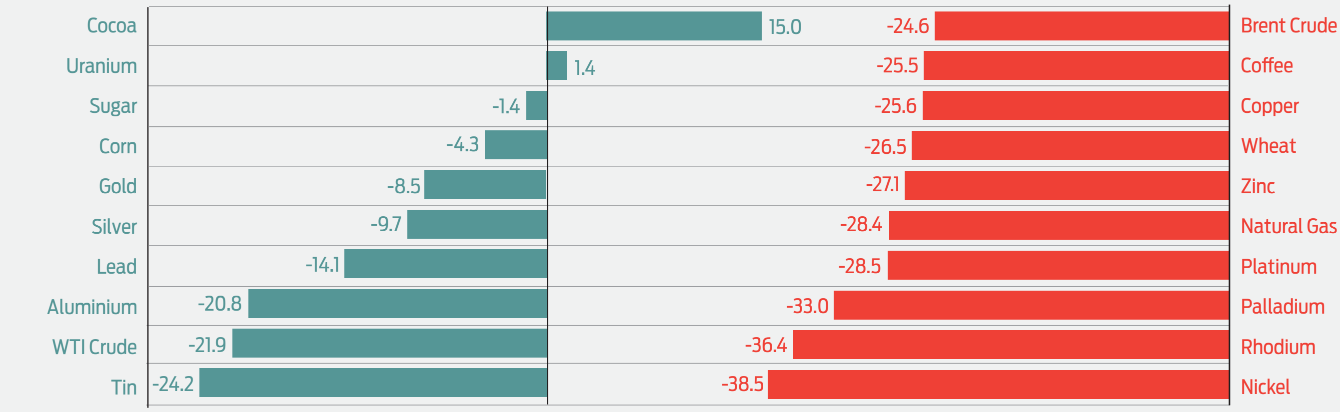


Covers period 01 Jan to 16 Nov 2015. Local currency terms. Source: *Shares*, Thomson Reuters Datastream.

THE BEST & WORST PERFORMERS

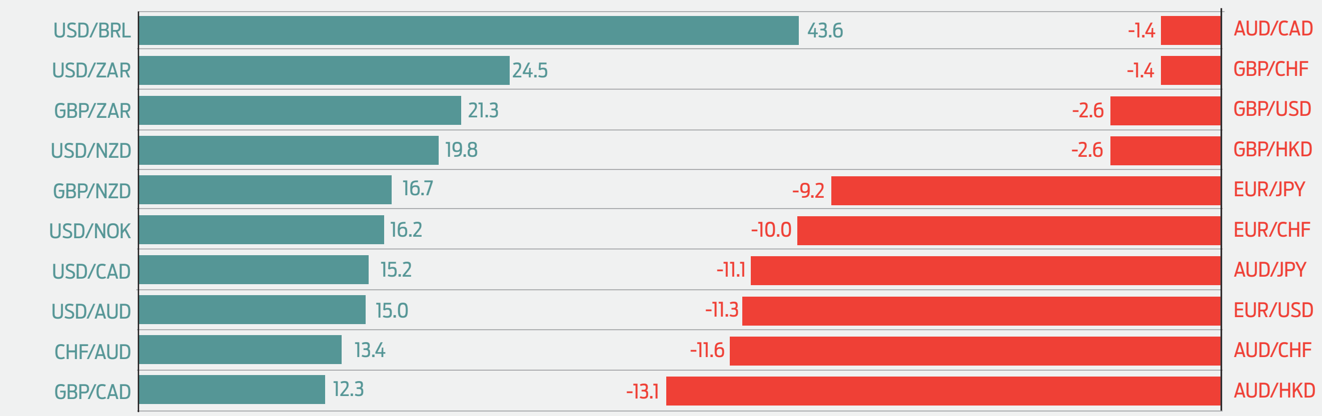
DATABANK

COMMODITIES (%)



Covers period 01 Jan to 16 Nov 2015. Source: *Shares*, Thomson Reuters Datastream.

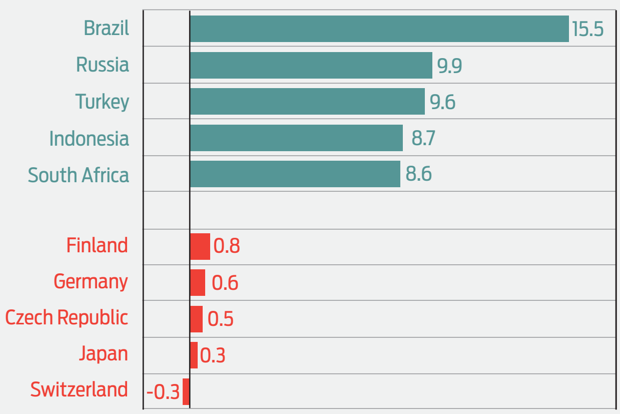
FOREX (%)



Covers period 01 Jan to 16 Nov 2015. Source: *Shares*, Thomson Reuters Datastream.

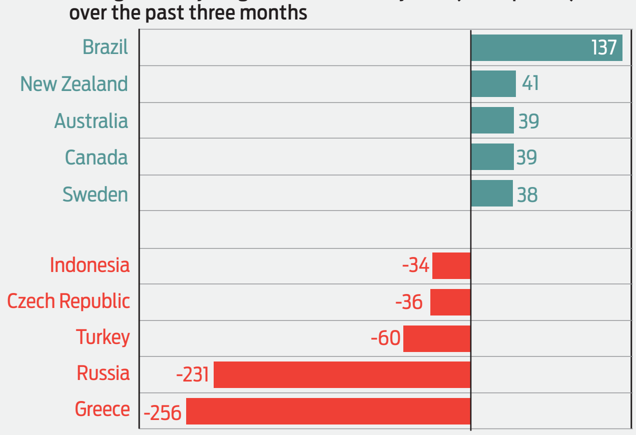
SOVEREIGN YIELDS (%)

Ten-year government bond yields (%)



Data as of 16 Nov 2015. Source: *Shares*, Thomson Reuters Datastream.

Change in ten-year government bond yields (basis points) over the past three months



Data to: 16 Nov 2015. Source: *Shares*, Thomson Reuters Datastream.

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FINANCIAL MARKET EDUCATION

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SIPPS

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stocks and funds this week

KEY

- Main Market
- AIM
- Overseas market
- Exchange traded funds/product
- Fund
- Investment Trust


SHARES
2015
SHARES
2015
SHARES
2015